EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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BRITISH SCIENCE
How planning threatens its future
Page 19

World News

Jaruzelski decides to stand for presidency

An end to the immediate Polish political crisis appeared in sight as General Wojciech Jaruzelski, the Communist Party leader, announced he would, after all, stand today for election to the post of President.

And those activists within Solidarity who have pushed for their movement to form the next Government have acknowledged they are in a minority. Page 20

Rebuff for US offer
Dubai lawyers said they were advising families of those killed when the USS Vincennes shot down a civilian aircraft to refuse six-figure payments from the US Government and seek up to 15 times as much in American courts.

Students under fire
El Salvador's armed forces tightened their grip on the national university after at least nine students were wounded when soldiers opened fire during a protest.

Mandela not hopeful
Nelson Mandela, the jailed African National Congress leader, does not expect to be released this year. Page 4

Tokyo support falls
The popularity of Japan's ruling Liberal Democratic Party has slumped to a new low only days before a crucial national election. Page 4

Progress on ban
The US and the Soviet Union have made substantial progress on a draft treaty banning chemical weapons, but problems remain over verification. Page 6

Fresh Natal violence
An unnamed black woman, who was pulled off a bus, shot and then doused with petrol and burnt to death, was one of 24 black victims of violence in Natal. Page 4

Row over rail pay
The UK Government rounded on the country's main rail union for voting to go ahead with its fifth 24-hour strike after rejecting an improved pay offer. Page 20

Bush boosts Labour
US President George Bush met Dutch political opposition leader Mr Wim Kok, in a gesture that is seen as enhancing the credibility of the Labour Party. Page 2

SA peace move
Regional peace moves in Southern Africa take another step forward today when Mr FW de Klerk, leader of South Africa's ruling National Party flies to Maputo for talks with President Joaquim Chissano. Page 4

Dissident arrested
China said police in Shanghai arrested Yang Wei, a prominent US - educated dissident who was released from prison last January.

Typhoon hits HK
Hong Kong's streets were virtually deserted at the start of the normal rush hour after Typhoon Gordon swept into the southern coast of China injuring 29 people.

Iran executions
Iran hanged 13 drug dealers labelling them "merchants of death" and bringing this year's total to 700.

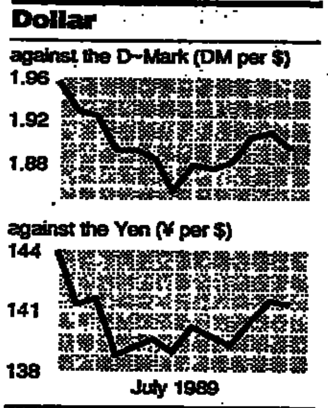
Business Summary

Brussels company law may face EC block

Controversial plans for a European company statute, which would allow cross-border mergers to incorporate as EC companies, met a potential blocking minority of EC governments in the first formal ministerial response to the scheme. West Germany, Britain and the Netherlands gave varying sceptical receptions to the plan. Page 20

THE DOLLAR fell sharply against the D-Mark after disappointing US trade figures. The US unit had moved firmer during the morning and broke through resistance levels at

Dollar



DM1.9170 and DM1.9200. The dollar's decline against the yen was less pronounced as traders remain wary ahead of Sunday's elections. Currencies, Page 38

IBM: Boosted by higher worldwide demand across its wide product range, the computer industry leader turned in sharply higher earnings for the second quarter recovering to net profits of $1.34bn, or $2.31 a share. Page 21

THE Philadelphia Stock Exchange disclosed that it was in exploratory talks with the American Stock Exchange and two other major US exchanges with a view to a possible merger. Page 21

REGULATIONS proposed by the US Treasury are likely to force foreign businesses for the first time to seek US government approval for American mergers and takeovers before deals are concluded. Page 3

PRU-BACHE Securities agreed to buy the branch network of Thomson McKinnon Securities, a move which will make it the fourth largest US retail brokerage firm. Page 24

ROTHSCHILD Group, banking and investment concern, marked the launch of its new Italian subsidiary, Rothschild Italia, by announcing a L112.5bn ($81m) fund for financing management buy-outs and investments. Page 25

RATE of growth of new car sales in West Europe spurted again in June with an estimated jump of 5.1 per cent to around 1.172m. Page 2

GREECE'S new Government has asked Denison Mines for an extension of 30 days to give it time to consider making an offer for the Canadian company's controlling stake in the North Aegean Petroleum Company. Page 22

COMMERCIAL foreign borrowings planned for this year by the Industrial Development Bank of India will total Rs1.3bn ($79.7m). Page 26

CARIBBEAN: Members of the Caribbean Economic Community (Caricom) have agreed to establish a regional capital market. Page 25

WEYERHAEUSER, US forest products group, reported a modest advance in second quarter earnings. Page 24

GOLD: Results from Randfontein and Western Areas, the two operating gold mines managed by the JCI group, highlighted difficulties faced by South Africa's gold mines. Page 23

GEC and Agnelli join Goldsmith in battle for BAT

By Nick Bunker in London

GEC, the UK electronics group, and Italy's Agnelli family last night entered the £13bn ($21bn) bid battle for the BAT Industries of Britain by throwing their weight behind the assault on the tobacco-based multinational by Sir James Goldsmith's Hoylake group.

Their participation, which is likely to electrify stock markets this morning, means that two of Europe's leading industrialists, Mr Gianni Agnelli and GEC's Lord Weinstock, have lent their authority to the attempt to take control of BAT and break it up by disposing of its retailing, paper and insurance interests.

The line-up of forces ranged against BAT, announced last night after the London Stock Exchange's early close because of the country's one-day national rail strike, now comprises: GEC, Banque Paribas, the Swiss-based Pargesa group, the Rothschild et Cie banking empire and the Agnelli family's IFI International holding company.

Mr Patrick Sheehy, chairman of BAT, said last night: "We thought that GEC had better things to do. We assume that this means that Lord Weinstock would not resist a highly leveraged bid for GEC."

Rumours that Pargesa, GEC, IFI and Paribas would join the battle for BAT on Sir James's side began circulating over the weekend, but with Lord Weinstock declining to comment on Sunday the City of London had been sceptical about his involvement.

In another sign of the huge stakes now involved in the battle for BAT, the largest-ever takeover in the UK, it has emerged that Sir James's merchant bank, Hambros, will receive a £30m payment from Hoylake if it succeeds in the bid.

As one of the first indications of the scale of the rewards intermediaries expect to make, merchant bank Hambros will receive £5m even if the bid fails.

Neither figure has been made public by Hambros or the Bermuda-based Hoylake in the UK. However, both are contained in hundreds of pages of submissions which Hoylake has had to file with insurance commissioners in the nine states of the US, headed by California, Texas and Arizona, which have to approve any change in the ownership of Farmers Group, BAT's US insurance subsidiary.

The filings contain some information which Hoylake wished to keep confidential.

State laws require, however, that the filings should be freely available, because the public in most US states has a specific legal right to contribute comments to regulatory deliberations about insurance company mergers and takeovers.

The filings also reveal that the French-based Paribas group has provided £65m of loan finance to aid Hoylake.

Paribas's announcement two days ago that it was holding advanced discussions about becoming an equity investor in Hoylake saddened BAT, because it obtained a listing for BAT on the Paris stock exchange in 1985.

The US regulatory filings also show that banking subsidiaries of Paribas in Luxembourg and the Bahamas helped fund about half of Hoylake's purchases of BAT shares before the announcement of the bid on July 11.

Soviet miners stay out on strike despite concessions

By Quentin Peel in Moscow

STRIKING Siberian miners refused to return to work yesterday, despite a string of concessions by the authorities, including a decision to ship thousands of tonnes of urgent food supplies to their region.

Soviet television last night showed angry coal miners in the Kuznetsk field in southern Siberia rejecting the concession as "half-baked" and demanding "radical reform."

Their refusal to end the nine-day stoppage, which involves more than 150,000 workers, came despite an appeal by their strike committee to return to work.

Meanwhile, the strike continued to spread, with 30 pits in the Donets coalfield of the Ukraine backing the Siberian miners' demands.

The government concessions were spelt out by Mr Nikolai Slyunkov, the Politburo member sent by President Mikhail Gorbachev to negotiate a solution, at a series of mass meetings yesterday and the night before.

They include substantial wage rises for night shifts, longer holidays and a doubling in the wholesale price of coal payable directly to the pits.

He also promised genuine management autonomy for pits with freedom to set their own production targets and to sell their own coal on the international market if they produce more than required for state contracts.

The deal includes a sharp increase in the supply of foods and consumer goods to the Kuznetsk region – including 10,000 tonnes of sugar, 3,000 tonnes of detergent and soap, 6,000 tonnes of meat, 5m cans of condensed milk, 1,000 tonnes of tea and 100 tonnes of coffee and cocoa – a graphic illustration of exactly the shortages which have sparked off the industrial unrest.

In Prokopyevsk, the main mining town in the Siberian field, some 90 per cent of all industrial workers were also reported to be out in sympathy.

The strike, by far the most serious unrest since Mr Gorbachev came to power and the most serious to be reported since the 1920s, has galvanised the Soviet authorities.

Mr Slyunkov, who is responsible for the economy and social affairs, admitted that his first hours in the region had "convinced us that the region has many problems."

"People have lost patience and composure," he said. "We understand you. We shall not limit ourselves to half-measures."

The concessions appear to meet almost all the miners' concrete demands. However, many mass meetings have gone further to demand political measures in Moscow, including an emergency session of the new Congress of People's Deputies to consider the state of the mining industry, and to debate constitutional reforms.

The government concessions are certain to be expensive, especially the doubling in the pithead price for coal, when the state budget is already running a deficit of about 20 per cent of spending.

There was no indication whether the increased price would be passed to consumers

Continued on Page 20
Strike threatens power stations, Page 2; Editorial comment, Page 18

A Soviet coalminer shouts at a speaker during a strike rally in Prokopyevsk. The strike has spread from Siberia to the Ukraine

Nairobi turns heat on ivory trade

By Julian Ozanne in Nairobi

IN THE HEAT of the midday African sun President Daniel Arap Moi of Kenya strode across the rolling grasslands of the Nairobi National Park to a spot where 2,000 elephant tusks, worth £2m, were piled into a pyramid.

A military brass band struck up the national anthem as the President marched down a red carpet from the long file of Mercedes-Benz and Peugeots. Policemen in khaki uniforms and pith helmets, carrying swagger sticks, stood to attention.

After a short speech attacking the illegal ivory trade the President grabbed a long, flaming torch and set the 12-ton ivory stack alight.

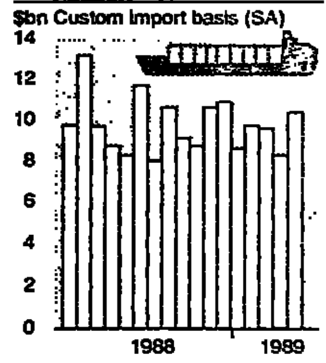
A mood of euphoria and excitement spread across the assembled Cabinet ministers and elephant experts as the first tusk caught fire. Wildlife enthusiasts with badges declaring "Only elephants should be allowed to wear ivory" cheered and posed before the fire for cameramen.

This orchestrated publicity gesture, held before the international press, was the latest move by the Kenyan Government in support of a worldwide ban on the trade in ivory in an effort to halt the crippling, illegal poaching of elephants.

The spectacle was co-ordinated to accommodate a live television transmission for Good Morning America, the US breakfast-time show. South African-based foreign correspondents, usually banned from entering Kenya, were given special exemption to

Continued on Page 20

US Trade Deficit



US trade deficit widens to $10.24bn

By Anthony Harris in Washington and Janet Bush in New York

THE DOLLAR fell sharply yesterday on the anouncement that the US trade deficit widened to $10.24bn in May from a revised $8.29bn in April.

The US currency had been rising strongly on market projections of a $9.1bn deficit. News of the highest monthly deficit since December sent it down but it then stabilised and attempted to move upwards.

Other US financial markets were reassured, however, by the details of the figures. The mood is dominated by whether the US Federal Reserve will soon initiate a further easing in monetary policy and the trade figures were not seen as an impediment to easier credit conditions.

A rise of $1.7bn (4.3 per cent) in imports was responsible for most of the month's change in the deficit and three-quarters of this was due to higher oil prices ($0.5bn) and higher shipments of capital goods ($0.8bn).

Continued on Page 20

GEC, Plessey join forces to apply for UK telecoms licence

By Hugo Dixon in London

THE GENERAL Electric Company and Plessey, the two British electronics companies which have been locked in a takeover battle for nine months, yesterday announced that they were making a joint application for one of the UK's new personal communications licences.

The new licences, due to be awarded later this year, are intended to compete with the country's existing mobile and fixed telecommunications networks, and are expected by many to become a large source of profits early next century.

The decision to join forces in a consortium with BellSouth, the large US telecommunications group, is the latest sign of a thaw in the relationship between GEC and Plessey.

Plessey indicated earlier this week that it was willing to reopen talks with GEC on the wider aspects of the takeover bid, although both parties stressed that the current initiative was unconnected with the takeover battle.

Mr Brian Meade, managing director GEC Telecommunications Private Systems, said the joint application was "totally distinct." Mr Philip Parker, Plessey director of corporate development, said the new consortium had "a life of its own, irrespective of any changes in control."

"The logic of us coming together was inescapable," Mr Meade added, pointing to the benefits of pooling the companies' technological expertise with the operational experience of BellSouth. Both sides dismissed speculation that the reason for joining forces was that two rival applications would have not been considered seriously in view of the takeover battle.

Mr Michael Armitage, an analyst at Morgan Stanley, said: "GEC and Plessey separately probably would have had no chance of winning" a licence. Now, however, "they have to be regarded as the front-runners."

The decision to come together follows a period of considerable bitterness in the relationship between the two companies, with Plessey having accused GEC of bad faith, after peace-talks collapsed only two weeks ago.

There had been contact between the two companies over the past month in an attempt to set up a link, but, according to Mr Parker, it was only after a telephone conversation last Wednesday between Lord Weinstock and Mr Stephen Walls – respectively, GEC's and Plessey's managing directors – that "whatever blockage there might have been in the eye of the beholder was removed."

Plessey and GEC will each have 30 per cent of the consortium, while BellSouth will have 20 per cent. A further 20 per cent is being kept on the side for additional partners.

None of the three partners would spell out how they would construct a network if they were awarded a licence.

Lex, Page 20

MARKETS

STERLING
New York lunchtime:
$1.6255
London:
$1.6265 (1.6145)
DM3.08 (3.0775)
FFr10.445 (10.4375)
SFr2.67 (2.66)
Y230.0 (228.5)
£ index 92.3 (92.2)

GOLD
New York: Comex Aug
$373.8 (372.2)
London:
$371.25 (same)

N SEA OIL (Argus)
Brent 15-day Aug
$18.025 (18.05)

Chief price changes yesterday: Page 21

DOLLAR
New York lunchtime:
DM1.8917
FFr6.418
SFr1.6395
Y141.25
London:
DM1.8935 (1.9065)
FFr6.4225 (6.465)
SFr1.6415 (1.647)
Y141.4 (141.55)
$ Index 70.3 (70.6)
Tokyo close: 142.35

US LUNCHTIME RATES
Fed Funds 9¼%
3-mo Treasury Bills: yield: 8.17%
Long Bond: 107⅞
yield: 8.16%

STOCK INDICES
FT-SE 100:
2,273.1 (-1.8)
FT Ordinary:
1,883.3 (+3.1)
FT-A All Share:
1,160.27 (-0.0%)
FT-A long gilt yield index high coupon:
9.52 (9.50)
New York lunchtime:
DJ Ind. Av.
2,544.95 (-8.54)
Tokyo: Nikkei
33,343.73 (-112.49)

LONDON MONEY
3-month interbank:
closing 13⅞% (13⅔)

SELLING PRICE IN IRELAND 60p, IN MALTA 40c

CONTENTS

Pakistan prepares to embark on privatisation trail

Prime Minister Benazir Bhutto (left) is preparing to launch a privatisation programme - one of the aspects she most admires from Mrs Margaret Thatcher's years in power in Britain.
Page 4

EUROPEAN NEWS

W German trade with Communist countries soars

By Andrew Fisher in Frankfurt

WEST GERMANY'S trade with Communist countries has risen sharply this year as they seek to modernise their industry, but is still being held back by the precarious economic situation in some parts of the East bloc, the Bundesbank said in its latest monthly report.

The central bank cited the high indebtedness of some countries, their limited industrial competitiveness, and foreign currency shortages resulting from lower export prices (chiefly of oil and gas) as inhibiting factors in their trade with West Germany.

"Most Communist countries had to watch out that their current account deficits with West Germany did not widen too much, because they had either reached their credit limits or were trying hard – like Romania – to reduce their borrowing in Western currencies."

In the past three years, West Germany's current account deficits with Communist trading partners have ranged between DM3.7bn (£1.2bn) and DM5.6bn ($£1.8bn), which the bank said was fairly stable.

Altogether, the Soviet Union does 10 per cent of its foreign trade with West Germany, or 20 per cent if only its dealings with the West are considered.

The proportion is roughly the same for the rest of Eastern Europe. Other Western countries like France, the UK, and Italy lag way behind in Communist trade. But West Germany ranks behind Japan and the US in its trade with China. To put the matter in perspective, however, West German business with either Austria or Switzerland is more than that with all Communist countries together.

In the first five months, exports to the Communist world rose by an average monthly 16 per cent (10 per cent when adjusted for price rises) over the average for the whole of 1988, continuing last year's more modest rise after the declines in 1986 and 1987. A third of the business was in machinery, reflecting Communist efforts to revamp their economies.

Over the same period, imports climbed by 18 per cent. In the previous three years, they fell by 22 per cent in value, but gained by nearly 30 per cent in volume, the difference mainly reflecting the collapse in energy prices, now been reversed. Two-thirds of Soviet sales to West Germany are of oil and gas.

The Bundesbank said a third of the East bloc's accumulated current account deficit of some DM18bn with West Germany in the past four years had been financed by DM6bn of capital exports and, to a much lesser degree, trade credits.

At the end of last year, West German net assets in the Communist area were DM30bn, or 8 per cent of its total foreign net assets of DM360bn.

SPD would raise energy taxes by almost third

By David Goodhart in Bonn

WEST GERMANS will have to pay 30 per cent higher energy taxes if the Social Democratic Party (SPD) wins power at the end of next year.

An ecology-conscious tax reform is one of the central planks of a government programme drafted by the working group "Progress 90" which has been leaked to the press.

The programme repeats the SPD's promise to close down the nuclear industry (which now produces about 40 per cent of the country's electricity) but admits that this may only be possible "in the medium-term".

It also proposes reducing the speed limit for cars to 120kph, and measures to make it easier for women to combine having children and pursuing careers such as a job-return-guarantee lasting three years.

Other drafts of the programme have toyed with lower nominal corporate tax rates paid for by abolishing certain tax advantages. However, this is being re-thought after complaints that it clashed with the goal of increasing investment.

The radical overhaul of energy taxes was greeted by leading members of the Green Party but rejected as being against consumers' interests by government spokesmen.

The leak of the document comes at a difficult time for the SPD which has been experiencing its own troubles after nearly a year of rising popularity. It polled only 37.3 per cent in the recent European elections when it had expected more than 40 per cent, and last week an internal strategy paper arguing that the party would gain from the rise of the far-right Republicans was leaked, showing the usually moralistic SPD in an unattractively cynical light.

The party's recent difficulties make it more likely that Mr Oskar Lafontaine, the controversial deputy leader and Prime Minister of the Saarland, will lead the SPD into the next election, rather than Mr Hans-Jochen Vogel, the current leader.

Bush gives Dutch Labour party leader a boost

By Laura Raun in The Hague

PRESIDENT George Bush yesterday met the most influential leader of the Dutch political opposition, Mr Wim Kok, in a gesture that is seen as enhancing the credibility of his Labour Party.

He and Mr Kok, Labour's parliamentary whip, spent about 40 minutes discussing East-West relations, European disarmament and environmental protection, before he flew back to Washington at the end of his 10-day European tour.

The Dutch politician, who aspires to be Prime Minister, urged Mr Bush to hold a summit soon with President Mikhail Gorbachev in response to the Soviet leader's letter to Group of Seven leaders proposing talks on economic co-operation between East and West.

Mr Kok, whose party has been in opposition for most of the past 12 years, wants to cut defence spending and supports early talks on short-range nuclear weapons.

A general election will be held on September 6 following the collapse of Mr Ruud Lubbers' Christian Democrat-Liberal Government last May.

According to an opinion poll last week the Socialists would become the biggest party in Parliament if elections were held now.

Soviet coal strike threatens to halt power stations

By Quentin Peel in Moscow

THE IMPORTANCE of coal as an energy source for the Soviet economy has steadily declined in recent years, falling behind gas as well as oil in the 1980s.

According to the latest official statistics, coal accounted for just over 20 per cent of energy requirements in 1987, as against 37.7 per cent for gas and 40 per cent for oil.

However it still accounts for a large share of the fuel supplies to electricity power stations, the iron and steel industry, chemical sector, as well as agriculture and industrial and district heating schemes.

No reliable statistics on the effect of the strike have been published, although Mr Nikolai Ryzhkov, the Soviet Prime Minister, warned the Supreme Soviet on Monday that several power stations and metallurgical plants would soon be forced to stop because of the dispute.

Telegrams pleading for supplies from plants in the Urals and the south Ukraine have been reported in the Soviet press. The chairman of the work collective at the Orsk-Khalil steel plant at Novo-troitsk, in the Urals, was quoted yesterday as saying: "We don't have enough coal. That is why our output has dropped by Rs3.5m. Further operation in such conditions will lead to the emergency stoppage of equipment worth hundreds of millions of roubles."

The Kuznetsk coal field in southern Siberia, where the coal strike is centred, is the second largest in the country and principal supplier to the heavy industries of the Urals and Volga region.

The Donets basin in the Ukraine, the oldest and largest coalfield, which began to come out in support of the Siberian miners last Saturday, is confined to supplying industry in the European part of the country.

In 1985, the Donbas produced 197m tonnes of coal, the Kuzbas 141m tonnes, and the next largest were Ekibastuz (80m tonnes) and Karaganda (50m tonnes) in Kazakhstan.

The Soviet miners can hardly be accused of striking mainly for more pay, because they are already among the highest-paid workers in the Soviet economy. Two years ago the average miner's monthly wage was Rs450 – more than double the national average of Rs210, while skilled miners were earning Rs600. Those working in the far north, or in the most remote Siberian pits, can earn Rs1,000 or more. Moreover, those in unfavourable conditions already have a 30-hour week – although a major complaint of the strikers is that their working hours do not include travelling time to and from the coal face.

They also get notably better annual holiday, and access to holiday homes, tourist camps and sanatoria than other industrial workers.

The greatest problem seems to be that their living conditions are so bad that they cannot spend their higher wages, and they are convinced that greater devolution of power from the central bureaucracy will enable individual mines to invest more in their workers' daily lives and comfort.

Red faces in Venice over Pink Floyd

By John Wyles in Rome

NOBODY DIED, nobody drowned, no historic building was seriously damaged, but the Feast of the Redentore in Venice last Saturday will go down in history as the day when the city fathers placed spectacle above dignity, profit above people and ambition above pure common sense.

This at least is the withering judgment of the Italian cultural and journalistic nomenklatura about the Venetian government's decision to allow Pink Floyd, one of the world's leading pop groups, to give a televised concert in front of an estimated 200,000 young people in St Mark's Square.

On Sunday morning the city's most famous piazza presented such a vision of 20th century squalor that many critics are questioning not so much the wisdom, as the sanity of the modern successors of the Doges.

Their insistence last week that Pink Floyd restrict their amplification to 60 decibels was a nod in the direction of responsible preservation of Venice's cultural heritage.

But their failure to provide any sanitation facilities for the huge audience, let alone proper refuse collection, left St Mark's looking, and in some areas smelling, like a devastated area.

Hammered by a violent public reaction, the Republican mayor, Mr Antonio Casellati, offered his administration's resignation on Monday evening. He had come under immense pressure to allow the concert from the RAI, the national television service, and from newspapers, he said, and there had been "contacts and contracts" surrounding the whole affair.

The Feast of the Redentore celebrates Venice's delivery from a medieval plague and many Venetians believe that only divine protection delivered them from a disaster last Saturday.

The crowd behaved extremely well, and few are disposed to criticise the youthful audience for the mess when no facilities were provided.

Some are wondering just how many palms were greased, and with how much, to win official permission for an event so culturally anomalous for the Serenissima.

Much blame is falling on the Socialist party, which embraced the concert idea from the beginning, and whose local baron is Mr Gianni De Michelis, currently Italy's Deputy Prime Minister.

He is pressing for Venice to apply to host the Expo 2000 world exhibition and viewed the Pink Floyd exercise as an experiment.

Many commentators blamed the poor quality of Italy's politicians. A writer in La Stampa, the Turin newspaper, linked the concert with the algae pollution in the Adriatic as examples of Italy's problems of "non-government, non-administration, indecision, refusal to take responsibility, lack of vision and lack of provision."

General Jaruzelski (left) pictured with Communist Deputies yesterday when he announced he would stand for President

European car sales defy gloomy forecasts

By Kevin Done, Motor Industry Correspondent

THE RATE of growth of new car sales in West Europe spurted again in June with an estimated jump of 5.1 per cent to around 1.179m. The strength of demand continues to defy forecasts of an imminent weakening in the market, and sales appear to be heading for a record for the fifth year in succession and could exceed 13m units for the first time.

Preliminary industry estimates put sales in the first six months at 7.24m, 5.6 per cent higher than a year ago. The surge in June was led by the five main volume markets, West Germany, Italy, Britain, France and Spain, which all recorded higher registrations than a year ago. Italy was top with a 14.2 per cent jump to 221,500.

New car sales in June were higher in 10 markets across West Europe, while sales fell in seven smaller markets: Sweden, Denmark, Finland and Norway, Portugal, the Netherlands and Greece. In the first six months car sales were higher than a year ago in 12 countries, while sales were lower in Denmark, Sweden and Norway, the Netherlands and Portugal.

General Motors (Opel and Vauxhall) has taken over from Peugeot as the fastest growing volume carmaker in the first half with a jump of 9.7 per cent to 794,000. It boosted its market share to 11 per cent from 10.6 per cent a year ago helped by its new generation Opel Vectra/Vauxhall Cavalier range, launched last autumn. Sales of the new range were 57 per cent higher than the predecessor model a year ago.

Despite tough competition in the European small car market GM also increased sales of its Opel Corsa/Vauxhall Nova supermini in ten countries in the first half.

Fiat (Lancia, Alfa Romeo, Ferrari) led the European market after six months with a 15.4 per cent share, ahead of Volkswagen (Audi and SEAT), with 14.7 per cent, and Peugeot (Citroen) with 12.9 per cent. VW increased sales volume at a faster rate than Fiat, however, suggesting that it will again overhaul the Italian group in the second half of the year to retain market leadership for the fifth year.

The two main losers in the first half were Mercedes Benz and Rover, in which Honda is planning to take a 20 per cent equity stake.

Rover sales fell 5.4 per cent across Europe, and Mercedes by 4 per cent. The latter has also been hit by a sharp drop in US sales. In West Germany its sales plunged 11.3 per cent thanks in part to a big drop in diesel car sales.

It has been outperformed by BMW, it chief domestic rival in the world luxury car market, which increased its European sales by 18 per cent to 213,000, the biggest jump on volume achieved by any European carmaker in the first half.

WEST EUROPEAN NEW CAR REGISTRATIONS JANUARY-JUNE 1989

	Volume (Units)	Volume Change(%)	Share (%) Jan-Jun 89	Share (%) Jan-Jun 88
TOTAL MARKET	7,235,000	+5.6	100.0	100.0
MANUFACTURERS:				
Fiat (incl. Lancia & Alfa Romeo)	1,112,000	+5.9	15.4	15.3
Volkswagen (incl. Audi and Seat)	1,066,000	+6.2	14.7	14.6
Peugeot (including Citroen)	938,000	+7.7	12.9	12.7
Ford	833,000	+7.1	11.5	11.4
General Motors (Opel, Vauxhall)	794,000	+9.7	11.0	10.6
Renault	723,000	+4.8	10.0	10.1
Mercedes-Benz	232,000	−4.0	3.2	3.5
Rover	215,000	−5.4	3.0	3.3
Nissan	213,000	+8.9	2.9	2.9
BMW	212,000	+18.0	2.9	2.6
Toyota	179,000	−1.1	2.5	2.6
Volvo	146,000	+1.4	2.0	2.1
Total Japanese	776,000	+2.0	10.7	11.1
MARKETS:				
West Germany	1,526,000	+3.2	21.1	21.6
Italy	1,335,000	+9.0	18.5	17.9
United Kingdom	1,196,000	+8.3	16.5	16.1
France	1,112,000	+5.8	15.4	15.3
Spain	586,000	+10.2	8.3	7.9

Source: Industry estimates

Jaruzelski throws hat in the ring

By Christopher Bobinski in Warsaw

THE POLISH Communist Party leader, General Wojciech Jaruzelski, told his parliamentary Deputies yesterday that "new circumstances" had changed his mind about standing for President.

These would include support for his candidacy from both President Mikhail Gorbachev and President George Bush and from the military establishment which has clearly favoured him.

General Czeslaw Kiszczak, the Interior Minister, whose candidacy had been suggested by Gen Jaruzelski, is expected to urge Deputies to vote for the party leader.

The President will be elected by the National Assembly – that is the 460 Sejm (Parliament) Deputies and 99 Senators voting together – and the general, who was 66 this month, needs the votes of 50 per cent plus one of those present and voting to win a six-year term.

Despite the Solidarity's movement's successes in national elections last month, the official parties still have a majority of up to 40 in the Assembly and there are unlikely to be enough dissenters from the established parties in today's vote to block Gen Jaruzelski's election.

Solidarity Deputies, though, look set to vote against or abstain en masse and there is little chance that the general will win much support in the opposition camp, many of whose have already promised to vote against him.

The next step for the Communist party is a central committee meeting which could take place as early as next week when reformists in the leadership will come under fire for having allowed liberalisation to go so far and permitted the party to have been humiliated at the ballot box.

The reformists, therefore, will be looking to Gen Jaruzelski to retain his post as party leader at least until a party congress early next year in order to protect them against attacks from the rank-and-file and central committee.

One of Gen Jaruzelski's first tasks as President will be to chose a candidate for Prime Minister. The latter will then attempt to form a government, which will be faced immediately with the acute problem of raising food price rises at the risk of widespread unrest.

Professor Wladyslaw Baka, party secretary responsible for the economy, is viewed by Solidarity's establishment as a possible candidate and he is thought to favour spreading the rises over a period.

Mr Mieczyslaw Rakowski, the present Prime Minister, is also still in the race, but he, too, is now opposed to immediate rises despite pressure from his own ministers appalled by a mounting budget deficit.

For the moment, Solidarity, despite urging from some of its leaders like Mr Adam Michnik and Mr Jacek Kuron,is ready to support the formation of a Communist-led Government which would be closely monitored by the opposition in Parliament.

Solidarity's parliamentary group is also to debate soon a policy paper prepared by Mr Kuron arguing that the only way to achieve "peaceful change" is for the union to "co-operate with the reformist wing of the Communist party." This could mean forming a Solidarity-led Government now which would work closely with the President and would be supported by the Communist party leadership.

Union warning over E Berlin workers

By Leslie Colitt in Berlin

WAGES paid to East Germans working on West Berlin construction projects are undercutting the pay for local workers and putting West Berliners out of work, the West German trade union federation (DGB) has charged.

In addition, the projects provide the East German state hefty profits because the East Berlin workers are paid through a state-run agency, according to the DGB.

Improved relations between East Germany and West Berlin have led to the employment in the city of nearly 3,000 East Germans, mainly on building sites. They are paid between 5 and 10 East German Marks hourly by their state employer and receive a daily spending allowance of DM17 in western currency.

The DGB said the East German foreign trade company Limex was hiring out the workers to West Berlin general contractors for DM40 an hour compared with DM 50which it cost for Western workers. Skilled West Berlin building workers earned DM18 an hour and the remainder was made up of high social costs borne by employers. No figures were offered for social costs in East Germany. Mr Michael Pagels, head of the West Berlin DGB, said he was not against the employment of East German workers but that their low wages represented "dumping competition" and worsened unemployment in West Berlin which is nearly 10 per cent. "The [Eastern] workers do not gain, only the state does with hard currency profits" he said.

Bitterness among unemployed West Berlin building workers was growing, Mr Pagels said, and there was a danger that they could be pushed into the arms of the radical right wing Republicans who gained 7.5 per cent in city elections earlier this year. East Germans cannot be barred from employment in West Germany where they enjoy all the rights of West German citizens under the West German constitution.

Aeroflot applies to join IATA

THE Soviet airline Aeroflot applied yesterday to join the 187-member International Air Transport Association, IATA said, Reuter reports from Geneva.

Mr John Brindley, for IATA, said acceptance was a formality and that Aeroflot, the largest non-IATA airline in the world, should become a member within two or three weeks.

He said it was not likely to affect Aeroflot fares, since IATA fare decisions were not binding, but it was likely to help bring Aeroflot procedures and documentation into line with international practice.

Airlines can exchange information quickly through IATA in the event of a hijack or bomb threat, he added.

Autumn clouds loom over sun-kissed Turkish premier

Prime Minister Turgut Ozal's optimism is not borne out by the figures, reports Jim Bodgener

A WAVE of excitement rippled through the Turkish press on Monday at the end of a languorous Bayram holiday when Mr Turgut Ozal, the Prime Minister, invited senior journalists down to the Mediterranean resort of Side.

As newsmen gathered against a backdrop of ruined Greek temples and theatres swarming with holiday-makers, there was one overwhelming question on their mind: would the beaming, tubby premier set a date for early general elections, or wouldn't he?

As it turned out, Mr Ozal simply reiterated that in view of the parliamentary majority enjoyed by his Motherland Party (Anap), there was no need to go the country again until his second term of office expired in 1992. His main purpose was to deny reports that the tourism industry was in trouble, pointing out that all the hotels visited during his brief trip to the coast had good occupancy rates.

But even this was not as good a sign as it appeared – Turks were simply flocking to take advantage of the cut prices offered by hoteliers hit by a slump in tourism.

And however brave a face Mr Ozal might put on it, the government faces a stormy autumn, as parliament prepares to vote on a successor to President Kenan Evren, who steps down in November.

June opinion polls showed that Anap's popularity with an electorate disenchanted with high inflation had fallen as low as 16 per cent from its disastrous 22 per cent score in the March local elections.

In spite of a package of economic measures introduced along with a major cabinet reshuffle after the March poll, inflation was running last month at an annual 68 per cent, having hovered at 62 per cent for the previous two months.

On the inflation front, there may well be worse to come. In what appeared to be thinly veiled electoral hand-outs, generous salary increases effectively averaging around 95 per cent were announced for civil servants immediately prior to the Bayram holiday.

Blue-collar workers in the public sector had already been compensated for high inflation in May last year through settlements with trades union confederations.

Ozal: holiday news conference

In addition, the government has increased support prices for farmers, and recently pledged extensive relief for hard-pressed farmers on their debts to the state-owned Ziraat Bankasi (Agricultural Bank).

Mr Ekrem Pakdemirli, the finance minister, has played down the danger of a surge in the money supply

However, this may prove difficult – to meet the salary increases alone, fresh money was issued to the tune of TL1.5 trillion (million million) (£433m), while M-1 money supply reached a record high of TL8 trillion last week.

The handouts are expected to feed through fully into the economy by mid-autumn, when it seems possible inflation may nudge three digit figures again for the first time since the early 1980s. That would be an embarrassing failure, given that official targets call for a rate of 60 to 70 per cent by the end of the year.

So in spite of Mr Ozal's seaside denial, and polls suggesting that an early ballot would be political suicide, speculation persists that the prime minister will call early elections before the economy deteriorates further.

There may be little other option to salvage what is left of his fondly-described "central pillar" of middle-class support for Anap before it erodes away altogether.

A strident campaign alleging that the government lacks a popular mandate has been kept up relentlessly since March by Mr Ozal's arch-rival on the right, former premier Mr Suleyman Demirel, leader of the third largest parliamentary grouping, the True Path Party (DYP).

Mr Demirel and the DYP have concentrated on the cities, building on strongholds in the countryside. His attempts to improve his image in the business community – which associates him with the chaotic late 1970s when he was prime minister – are enjoying some success.

In the private sector, sluggish business activity bears out warnings of incipient "stagflation". Banks have been forced to move deposit rates upwards to keep pace with inflation, even though they are weighed down with liquidity in the wake of the liberalisation of interest rates last autumn.

However, corporations are a bad risk and the saturated inter-bank market affords little relief.

The centre-left Social Democratic Populist party (SHP) has been low-key in its campaigning in comparison with Mr Demirel. Its internal politics have been complicated by differences between the party executive controlled by its moderate, pragmatic secretary-general, Mr Deniz Baykal, and left-wing deputies.

Many of the latter come from the east, where grievances have been fuelled by the government's continuing refusal to recognise the existence of a Kurdish minority.

Factional rebellions, particularly from the important Islamic fundamentalist wing, have sapped Anap as well, and an early election call might arouse a back-bench rebellion by Anap MPs anxious to hold on to their seats.

Weakened political leadership has damaged the co-ordination between the central bank, treasury and State Planning Organisation, say disaffected officials.

The premier is as enigmatic as ever about his own designs on the presidency, keeping his option open. On the other hand, he may still reach some kind of accommodation with the main opposition Social Democratic Populist Party (SHP) on a consensus candidate, thereby excluding the DYP.

Other scenarios include buying off Mr Demirel with the presidency. The easy way out in the short term simply could be to extend President Evren's term.

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WORLD TRADE NEWS

Problems of tariff cuts still unsolved

By William Dullforce in Geneva

A FUNDAMENTAL difficulty in achieving trade tariff cuts in the Uruguay Round talks remained unresolved yesterday after the US persisted in a different approach to that of the European Community and Japan.

Brussels and Tokyo presented to the group negotiating on tariffs, formulae which would result in co-ordinated reductions in customs duties for all industrial products.

The US said it was submitting to 14 of its trading partners, including the EC and Japan, requests for tariff cuts on given products, including some agricultural and natural resource-based items.

US insistence on negotiating tariff cuts individually on a request-and-offer basis is dictated by its desire to protect exposed domestic industries, such a textiles. Almost all other countries favour a formula approach. The US attitude will at the least complicate tariff reductions.

The EC and Japan proposed different formulae but both aimed to meet the target of a 33 per cent average tariff cut set by trade ministers at their mid-term review of the Round in December.

Some Third World negotiators voiced reservations about the EC's categorisation. It called for industrialised and more advanced developing countries to reduce tariffs with a base (starting) rate of 40 per cent or higher to a ceiling of 20 per cent. For rates of less than 40 per cent a formula would be applied that would cut a 20 per cent rate to 12 per cent.

Least advanced countries would contribute "within the limits of their capabilities", while the other developing countries would be expected to cut all rates of more than 35 per cent to 35 per cent and would be offered the possibility of cutting duties of 35 per cent or less in bilateral negotiations.

The EC stipulated that all cuts in duties should be "bound", meaning that governments would undertake not to raise them again. Some developing countries objected.

Japan, HK want Gatt dumping code revised

By William Dullforce in Geneva

JAPAN AND Hong Kong, stung by EC duties on rapidly growing consumer and high-tech electronic exports, are urging revision of Gatt's anti-dumping code.

Tokyo has proposed a list of changes to the Uruguay Round group discussing Gatt code improvements. The most important would tighten the procedure governments imposing anti-dumping duties must follow in calculating the difference between the price of the allegedly dumped product and its "normal value" or domestic price.

Last week, when the EC announced provisional duties of 6.4-33.9 per cent on imports of compact disc players from 15 Japanese and S. Korean manufacturers, Sony claimed the calculations were wrong. Brussels has been accused of "imaginative licence" in assessing alleged dumping margins on imported products.

The Gatt code states the dumping margin is to be determined "by comparison with the cost of production in the country of origin plus a reasonable amount for administrative selling and any other costs and for profits". But Japan wants this changed to specify that the value should be the sum of: costs of production, selling costs, general and administrative expenses and any other costs of the exported product; and, profit normally realised on sales of products of the same general category in the domestic market of the country of origin.

Japan also aims to reduce scope for trade "harassment" through EC procedures, which, they say, do not permit an effective counter-case.

Hong Kong, which has undergone eight EC anti-dumping actions in the past 18 months, urged substantial changes in the Gatt code, to stop governments acting against normal price competition.

It argued that anti-dumping provisions, originally introduced under domestic competition or anti-trust law, have become protectionist systems for curbing import competition. Imprecision in the existing code allowed authorities calculating dumping margins to reach figures higher than actual costs, for example, by fixing arbitrary profits.

The EC and US have sought different changes to the Gatt code – to include provisions to stop exporters circumventing anti-dumping rules through "screwdriver" assembly plants in importing countries.

Soviet travellers light on consumer heaven

Poles turn border crossing into a 'special' trade centre, writes Judy Dempsey

AS EAST European and Soviet economists ponder the convertibility of their currencies, a novel experiment in trade is taking place in the north-eastern Hungarian town of Zahony, which demonstrates the market value of these currencies.

For years, this small Hungarian-Soviet border crossing was eyed enviously by Soviet citizens, particularly the 200,000-strong Hungarian minority who live in Uzhgorod, a region just across from the Hungarian border.

They had heard about the luxuries in Budapest. But they had also heard how their Hungarian cousins flocked to Vienna to stock up with every imaginable consumer item.

But while Vienna may well epitomise the Western capitalist world for the Hungarians, it is nothing compared to Zahony, which is fast becoming a consumer's haven for Soviet travellers, thanks to new travel regulations recently introduced by the Soviet authorities.

And, most important of all, thanks to the ingenuity of the Poles who have transformed the place into a mini-"trade centre".

Activity intensified last March, when the border crossing at Zahony was almost completely opened up. Soviet citizens living in the 30-km border zone, can now cross as many times as they like into Hungary.

They require no exit visa, no visa from the Hungarian authorities, no invitation, just a valid passport which, however, cannot be used for any Western country.

Soviet citizens have jumped at the opportunity to travel. In the first three months, 1.5m crossed into Hungary.

So great was the traffic that the Hungarian and Soviet authorities opened up three new border crossings south of Zahony.

"Yesterday, we had 30,000 come through, and that's just one-way traffic from the Soviet Union," said a tired Hungarian border guard. "You should have been here two months ago. Sometimes, we were getting 80,000 a day".

But there is a catch to these new liberal travel regulations.

Any Soviet citizen travelling across to Hungary can only buy from the authorities Roubles 30-worth of forints. That amounts to 570 forints, about £6.

That is hardly enough for consumer-hungry Soviet citizens who want to buy up the goods in Zahony, then travel down to Debrecen, the main city in eastern Hungary.

Not that there is much to buy, officially that is, in this shambolic settlement.

Official exchange and tourist offices are difficult to find, if non-existent.

The same applies to the dearth of department stores and other consumer shops. A Western visitor would find few reasons to linger in this corner

of Hungary.

But, inevitably, the Poles, who seem to dominate all the black markets in Eastern Europe, have found enough reasons to camp here for a few days.

Once they had heard that the Russians were descending on Hungary, they soon took over Zahony.

On their way down to spend their holidays in Bulgaria, or even in Austria or Yugoslavia, Polish closet-entrepreneurs thought nothing about making a detour to Zahony. Somehow, they sensed that here was a golden opportunity to make some quick money.

"We reckoned we could help our Russian friends," said Jacek, a 25-year-old Pole who was nonchalantly hawking denim jeans and Adidas tee-shirts.

Like hundreds of other Poles, he was selling them out of the boot of his Lada in a field which the Hungarians had allotted (predictably, for a small fee to each car-owner) to this thriving free market.

The spectacle defies imagination. Each day, starting early in the morning, the Poles spread out their wares on the top of the boots of their Russian-made cars.

Everything, from razor blades and underwear, to hack-saws, screwdrivers, perfumes, shampoo and deodorants, and of course cognac, is available to the Russians, many of whom think this is a version of a consumers' paradise.

But the problem is that the Russians do not have enough forints to buy these goods which are in short supply at home.

Everything is sold in forints. And if the Russians dared to offer zlotys, the Polish units of currency, the Poles would pull a most unpleasant face.

"I wouldn't sell or buy zlotys against any East European currency," says Jacek. "Its rubbish money. Give us the forint or the rouble. But really, the forint is the only real 'hard' currency left in the bloc," he opined, sounding like a banker.

"Sure, forints, we want forints," interrupts Leszek, who was busy counting his wads of rouble notes. Here were two real professional black marketeers with whom the Soviet tourists had to contend.

During the afternoon, Soviet tourists came up and argued over the price of the shirts with Jacek, while Leszek negotiated the exchange rate.

On the official market, Soviet citizens can buy 18 forints for one rouble. The profit-conscious Poles offer 8 forints to the rouble. The Russians have few qualms about the rate. They want the goods. They need the forints.

And besides, since the Poles monopolise both the consumer and money market in Zahony, the Russians have little choice.

The Hungarian "clerks", who provide refreshments and sanitary facilities, turn a blind eye to the transactions.

Not content with trading with the Russians in Zahony, the Poles afterwards try to sell their roubles to Hungarians who want to visit their relatives in Uzhgorod, or to Westerners passing through Debrecen.

More often than not, some will eventually wend their way to Vienna and trade their roubles at a black market centre near the Danube. That, so far, is a place out of bounds to Soviet citizens, who, at the moment, seem content with Zahony, their first taste of quasi-Western consumerism.

But if the Poles have their way, and if Soviet travel restrictions lift even further, the Poles will be there at each border crossing, providing the goods and having a say in the "real" value of the East European currencies.

US warning to foreign investors

NEW REGULATIONS proposed by the US Treasury are likely to force foreign businesses for the first time to seek US government approval for American mergers, takeovers and other investments before deals are concluded, Nancy Dunne reports from Washington.

The regulations, required by last year's Trade Act under the "Exon-Florio" provision, give the US President broad discretionary authority to block or suspend mergers, acquisitions and takeovers on national security grounds if they result in control by foreigners.

The President could also act when acquisitions by US interests are financed by foreign banks.

The US has traditionally opposed government screening of foreign investment. Thus, the Treasury has made registration of investments voluntary in a bid to minimise the impact on business.

Mr Elliot Richardson, chairman of the Association for Foreign Investment in America (AFIA), said the regulations were so vague that foreign investors might feel constrained to seek government approval rather than risk forced divestiture.

"To a large extent, the Treasury has had to square the circle in developing a system that meets the contradictory legislative impulse both to have and yet not have a screening system," Mr Richardson added.

The proposed rules do not define "national security" or spell out a threat to national security. They imply the following sectors would be safe from action: toys and games, food products, hotels and restaurants and legal services.

"These exclusions imply enormous inclusions and would make it very difficult in the case of most acquisitions to rule out the possibility that Exon-Florio will apply."

The regulations would create such widespread uncertainties that even joint venture partners with US companies could feel forced to seek approval.

Italy and Greece obstruct Lomé talks

By David Buchan in Brussels

THE PROSPECT of a relatively smooth re-negotiation of the Lomé Convention, the European Community's five-year aid and trade pact with 66 African, Caribbean and Pacific (ACP) countries, was last night shaken by protectionist demands from Italy and Greece.

At a meeting of development ministers stretching into the small hours of yesterday morning, the two Mediterranean countries baulked at increases in imports of ACP figs, peaches and apricots, and so effectively prevented the European Commission from putting a fresh proposal to the ACP states until early autumn.

Instead of having all summer to digest the Community's bargaining position on trade issues, negotiators for the ACP states may now only get it after EC development ministers are next due to meet on October 2-3, barely a week before talks start in earnest on October 10.

The trade aspect of the Lomé Convention re-negotiation splits the Community. Northern countries like Britain urge generosity in trade rather than aid, while southern EC states argue the Community should concentrate on increasing grants and soft loans – which amount to Ecu8.5bn (£5.7bn) in the current 1986-90 Lomé treaty – rather than let in more ACP products which often compete with their own.

The trade row overshadowed the makings of a compromise over geographical extension of the Lomé convention to cover the Dominican Republic and Haiti. This issue has pitted Spain, which has made the inclusion of at least one Spanish-speaking territory a virtual condition of its agreement to Lomé re-negotiation, against the UK which has come under heavy pressure from the English-speaking Caribbean to ensure the inclusion of these islands does not hurt its interests, and that the Dominican Republic is not a Trojan Horse for other Latin Americans to enter the Lomé convention.

UK diplomats said yesterday they were now satisfied that a form of words had been found to limit further geographical extension of Lomé in the Caribbean, but not necessarily elsewhere. The key remaining issue for the UK was to ensure that the Dominican Republic, as a sizeable sugar producer (which has renounced membership of the EC's special sugar protocol), did not push traditional Caribbean rum exporters out of the EC market.

OVERSEAS NEWS

RECORD CURRENT ACCOUNT DEFICIT

Australia's economic outlook darkens further

By Chris Sherwell in Sydney

AUSTRALIA'S gloomy economic outlook darkened further yesterday after statistics confirmed a record current account deficit of A$17.74bn (£8.35bn) for the financial year which ended last month, worse than the most pessimistic expectations.

Preliminary monthly figures from the Bureau of Statistics put the June deficit at A$1.63bn, at the higher end of analysts' forecasts. The bureau also revised the May figure upwards by A$500m to a record monthly figure of A$1.86bn.

The overall 1988-89 figure was equivalent to 5.2 per cent of gross domestic product, or around double the country's estimated sustainable level. It compares with A$12.33bn the previous year and is an embarrassing 87 per cent higher than the optimistic A$9.5bn deficit projected in the Labor government's Budget last August.

Despite the government's year-long attempts to dampen domestic demand through tighter monetary policy, some economists say the monthly figures – now running at an annual rate of more than A$19bn – foreshadow another record deficit in the year just started.

With few signs of any underlying improvement, the present high interest rate regime appears set to continue indefinitely, with the ever-growing risk of an outright recession instead of a more desirable "soft-landing." Prime borrowing rates currently stand at 20 per cent and home loan rates at a record 17 per cent.

The opposition coalition cited yesterday's figures as "further evidence of the government's economic mismanagement," but Mr Paul Keating, the Federal Treasurer, insisted he would stick by his present policies.

The foreign exchange and domestic money markets absorbed the figures calmly, having earlier taken into account the possibility of another large monthly number. Bill and bond yields firmed and the Australian dollar finished at 59.1 on a trade weighted basis (May 1970=100), up from 58.8.

The details behind yesterday's figures were revealing. In its visible trade, Australia notched up a record deficit of A$4.23bn for 1988-89, far ahead of the previous record of A$3.5bn in 1985-86, when the overall current account deficit was A$14.8bn. By contrast, visible trade last year was in balance.

Australia's exports increased by only 6 per cent over the year, despite strong commodity prices and continuing world economic growth. This rise was swamped by a 17 per cent surge in imports, a key element of which was aircraft and vehicle imports.

Vehicle imports reached A$4.8bn in 1988-89, up from A$3.1bn the previous year. Aircraft imports amounted to A$837m, up from A$189m and are projected to hit A$1.4bn in 1989-90.

The government says the investment element, which forms a significant part of the import surge, will deliver returns in the form of an improved balance of payments performance. But of its nature this can only be a long-term hope.

The immediate worry concerns foreign investor sentiment as Australia's seeks to cover the payments gap. For the moment high interest rates are serving to attract capital. But if sentiment reverses or the interest margin weakens, the currency will come under severe pressure.

Investors told to be cautious

By Andreas Utermann

INVESTORS are advised to reduce their equity exposure in Australia in a report by Citicorp, Scrimgeour Vickers, the Australian broking arm of the US Citicorp group, to be published today.

The firm expects a depreciation of the Australian dollar in the next four to six weeks from 76 US cents to 70 US cents at best and to an increasingly likely 60 US cents at worst.

The reasons cited for this are: an estimated 12 month cumulative A$20bn current account deficit; an end to support of the Australian dollar due to the forecasted peak in short term interest rates by the end of 1989; increased downward pressure on commodity prices; and volatility caused by the uncertain future level of the US dollar.

The report follows yesterday's announcement of a record current account deficit of A$17.74bn for the financial year which ended last month and intensifies worries among investors that Australia, with its external debt of US$100bn, could become a "banana republic."

After a 10 per cent depreciation of the Australian currency earlier this year and the increase of short term interest rates to nearly 20 per cent, the prospect of a further fall in the Australian currency also confirms the "fall from grace" of investments in the so-called high yielding currencies, which until recently, played an important role in investors' portfolios.

Sheikh Zayed bin Sultan al-Nahayan, president of the United Arab Emirates, inspected a guard of honour with the Duke of Edinburgh at Buckingham Palace yesterday. He is likely to discuss arms sales and relations between Britain and Iran with Mrs Thatcher during his four day visit.

S African trade surplus rises

By Anthony Robinson in Johannesburg

EXPORTS boosted South Africa's trade surplus to R5.32bn (£1.21bn) over the first half of this year from R4.13bn over the same period of 1988.

According to preliminary customs figures, exports, boosted by a sharp rise in diamond sales, stronger agricultural exports and higher prices for a wide range of mineral products, rose R4.97bn to R27.37bn, while imports rose R3.78bn to R22.05bn.

Although exports, aided by rand depreciation, rose faster than imports the continued high overall level of imported goods, especially machinery and other capital goods, implies that the 16 per cent rise in fixed capital investment last year goes on despite the beginnings of a slowdown in domestic economic activity and consumption spending. Over the last six months the monetary authorities have raised key interest rates, toughened hire purchase terms and raised both taxes and petrol prices in an attempt to protect the balance of payments by curbing imports.

These politically unpopular moves are now starting to bite and economists expect a further improvement in the trade surplus over the second half of the year, sufficient to repay maturing foreign debt partially frozen by the August 1985 debt moratorium.

The current three-year debt rescheduling agreement, under which Pretoria agreed to repay $1.4bn (£867m) of frozen bank debt by June 1990, comes up for renegotiation next year. Anti-apartheid organisations recently announced plans to put pressure on foreign banks to refuse any further rescheduling. Many are loath to bow to such pressure as South Africa has punctually serviced its entire outstanding $21bn foreign debt and honoured the terms of previous rescheduling agreements.

Mandela denies release imminent

By Anthony Robinson in Johannesburg

MR Nelson Mandela, the jailed African National Congress leader, does not expect to be released this year, his wife Mrs Winnie Mandela said after visiting him in a prison bungalow on his 71st birthday.

Asked whether he was optimistic about the chances of an early release Mrs Mandela said "Not at all. His exact words were 'there will be no release, definitely not this year.'"

Speculation that Mr Mandela, and possibly other jailed ANC veterans, would be released at some point after the September 6 general elections grew following his historic meeting with President P W Botha two weeks ago and his subsequent meetings with fellow prisoners from the 1964 Rivonia treason trial.

Such speculation has accompanied indications from the government that it is preparing the ground for negotiations after the elections. After an initial dismissal of the significance of the meeting with Mr Botha, black anti-apartheid groups, anxious to avoid being pushed into negotiations without a clear strategy, have been debating their next moves.

Trade union, anti-apartheid and other opposition bodies have dampened exaggerated hopes of any quick solution to the country's complex political problems. They question the sincerity of the government's commitment to an early release of jailed leaders and the unbanning of the organisations they represent.

De Klerk flies to Maputo

Regional peace moves in Southern Africa take another step forward today when Mr FW de Klerk, leader of South Africa's ruling National Party flies to Maputo for talks with President Joaquim Chissano, Our Johannesburg Correspondent writes.

Mr de Klerk, accompanied by Mr Pik Botha, the Foreign Minister and senior officials, is making his first official visit to black Africa against the background of steadily improving relations between the two countries. He is also expected to meet the Kenyan President Daniel Moi who also arrives in the Mozambican capital today.

President Chissano yesterday signalled his desire for closer relations by confirming that his government was now convinced that Pretoria and its defence force was no longer assisting Renamo rebels.

Fresh surge of violence in Natal

AN UNNAMED black woman, who was pulled off a bus, shot and then doused with petrol and burnt to death, was one of 24 black victims of a fresh upsurge of violence in Natal, reported by police over the last four days, Our Johannesburg Correspondent writes.

Three other black youths were killed in the same village of Mpumalanga, near Durban, while the remaining victims were killed in a series of clashes between rival bands in several other townships in the Pietermaritzburg and greater Durban areas.

More than 2,000 people have died and tens of thousands more either maimed or made homeless in four years of conflict over control of land and people.

IN DESPAIR: LDP Secretary General Ryutaro Hashimoto fends off reporters after hinting at electoral disaster on Sunday

Japanese socialists overtake ruling party for first time

By Stefan Wagstyl in Tokyo

THE POPULARITY of Japan's ruling Liberal Democratic Party has slumped to a new low only days before a crucial national election is held on Sunday.

The opposition Japan Socialist Party has overtaken the LDP in popularity for the first time according to a poll published yesterday by the Nikkei Shimbun newspaper, Japan's leading business daily.

According to the survey, 27.8 per cent of voters support the JSP, against 25.8 per cent for the LDP. The LDP lost 7.1 percentage points compared with a similar poll a month earlier, while the JSP gained 2.1 percentage points.

The figures show that the socialists have made gains during the election campaign which got under way in earnest two weeks ago, while the LDP has lost ground. Voters have expressed concern about the Recruit affair and the sex scandal involving Mr Sousuke Uno, the Prime Minister, but the main issue has turned out to be the controversial consumption tax introduced in April. The JSP has won support by promising to abolish the tax, the LDP has merely pledged to revise it.

Nevertheless, the Nikkei survey also showed that a large number of voters are uncommitted – many of them probably LDP supporters who may abstain in order to punish the ruling party, without casting a vote for the socialists.

Analysts said that the LDP would lose its majority in the Upper House of the Diet if the results of the poll were reflected in Sunday's vote.

The elections will be held for 126 seats in the Upper House of the Diet, 50 of which are contested by nationwide proportional representation and the rest by seperate prefectural constituencies. The public elects half the 252 members of the Upper House every three years.

'Betrayed' farmers plan revenge

A key LDP constituency is in revolt, reports Michiyo Nakamoto

WITH Sunday's elections to the Upper House of the Diet rapidly approaching, Japan's traditionally conservative farmers are in revolt against the ruling Liberal Democratic Party (LDP). For the first time, farmers are likely to vote against the party they have supported for 30 years.

In the once contented region of Shuso, on Shikoku, one of the four islands of Japan, interspersed between the quiet paddy fields and rows of fruit trees are countless plots of land studded with dead trees. They are what remains of the numerous mandarin orange trees that once covered much of the landscape in this area, and they are striking evidence of the changes that the liberalisation of Japan's orange market are already bringing about in this remote province 900km south-west of Tokyo.

Here farmers of the local agricultural co-operative or nokyo are deserting the incumbent LDP member – a former government minister – and backing an independent.

The farmers are casting a protest vote against the LDP rather than expressing their outright support for any other party, such as the Japan Socialist Party, the leading opposition party that has benefited most from growing discontent with the LDP. Many do not think the policies of the opposition parties are realistic. But they are determined to express their unhappiness with the ruling party.

They are not alone. All over Japan traditionally conservative farmers who have been solid LDP supporters are voicing their discontent with the party. In 15 of the 47 prefectures, the youth divisions which are the most politically active groups of the nokyo have decided not to back LDP candidates in the Upper House election.

The farmers are taking action against a party which many feel has betrayed them. To begin with, the LDP broke its promise not to open markets in beef and citrus fruits and 12 other agricultural products and has bowed to foreign pressure to do so in two years. Then came the passage of the consumption tax, the Recruit share sale scandal, and a sex scandal involving Mr Sousuke Uno, the Prime Minister.

All this exacerbated a growing feeling in rural communities that farmers were being left out of government decision-making. Farmers believe that forcing the opening of agricultural markets was equivalent to making them pay for the country's trade surplus that aggressive manufacturing industries had brought about.

Discontent has been aggravated by what was seen as "farmer bashing" by the media, says Mr Fumiaki Aruga, general manager of the agricultural policy and planning department of Zenchu, the central co-operative of nokyo. The media has portrayed Japanese farmers as inefficient and incapable of supporting themselves without the help of the government. "The environment has been very bad for farmers in the past few years," he says.

The farmers of Shuso, an area with a mild climate, abundant sunshine and fertile soil, known as Japan's "orange country," had lived a steady life off their land, growing rice, planting fruit trees, secure in their belief that nature and the ruling Liberal Democratic Party would take care of their needs. Recent government actions, however, have changed all that.

"We are burning with anger," says Mr Masatoshi Wada, director of the project planning division of Shuso nokyo. "We have always supported the LDP in the past, but one thing after another has finally brought it home to us that the party is no longer on our side."

Mr Kiyotaka Fujii, a rice farmer and fruit grower who is head of the seinen-bu, the political arm of the nokyo, adds: "We decided that we had to take concrete action to show how we felt." The seinen-bu is campaigning for Mr Osamu Ikeda, a local independent who is calling for a comprehensive review of farming policy and the abolition of the consumption tax.

Although Shuso farmers feel that liberalisation of the orange market will hurt their income, it is not so much the economic side of the issue that has brought the farmers to their feet. The government has offered handsome subsidies.

What the farmers fear is that the government's policies and the media bashing which reveal a disrespect for agriculture as a means of living will convince young people that there is no future in farming, says Mr Wada. His own son, who returned to his hometown to succeed his father in the field after graduating from the Tokyo Agricultural University, sees no future in farming and now works for the nokyo. Agriculture as a way of life is being threatened by the government's policies.

Yet the farmers and their co-operatives have found it difficult to sever their ties with the LDP and in spite of the mounting momentum of anti-LDP feelings, it is hard to envisage a permanent split.

The co-operatives have no specific political function, but they act as strong political bases for whatever party they support. Now they are caught in a dilemma. They are against the LDP's liberalisation policies which would inevitably lead to a rationalisation of Japanese agriculture and hence to a reduction in their powers and they would support the anti-LDP moves of the farmers.

At the same time, nokyo officials often have close personal ties with LDP members, stemming from a long relationship with the party. The LDP also has a trump card in the form of rice subsidies which it hands out to farmers through the nokyo.

Rural support is crucial to the LDP as evidenced by the recent decision not to lower the official rice price which is supported by huge government subsidies. The move, however, has been seen as a cheap election ploy in Shuso.

Many Shuso farmers, while gearing up for a heated election battle, do not believe there is a viable alternative party to the LDP. By supporting a moderate independent, they hope to make their protest clear while not straying too far from their conservative roots.

Money supply under control

By Stefan Wagstyl in Tokyo

THE rate of money supply growth in Japan stayed below 10 per cent in June for the second month in a row, providing strong evidence that the authorities are succeeding in restraining the expansion of the money supply.

According to figures published yesterday the money supply in June grew by 9.4 per cent compared with the same month last year. The figure for May was also 9.4 per cent, on a revised basis, compared with 10.2 per cent in April.

The Bank of Japan said it was satisfied that an increase in interest rates had undermined the upward momentum in the growth of the money supply. The bank raised the official discount rate by 0.75 percentage points to 3.25 per cent on May 31.

The central bank also forecast that the money supply would rise by about 9 per cent this quarter, compared with a 9.7 per cent increase last quarter.

The decline in the rate of money supply growth will ease fears about the resurgence of inflation in Japan. But the central bank is still concerned that other factors – including shortages of labour and of some raw materials in Japan as well as the recent weakness of the yen – will tend to push up prices.

Taiwan bank law comes into force

TAIWAN'S new Banking Bill, intended to open up banking to the private sector and clamp down on underground finance companies, comes into force tomorrow, writes John Elliott.

About ten of Taiwan's major business houses are expected to apply for licences to open banks in competition with four state-run banks. Foreign banks will also able to enlarge the scope of their activities and take savings deposits and long term loans.

Pakistan prepares to embark on the privatisation trail

Christina Lamb in Islamabad examines the country's plans to sell off shares in profit-making public corporations

ON THE day Benazir Bhutto became Prime Minister of Pakistan, the faces of some of the country's richest businessmen were pale. They recalled the ruthless nationalisation programme of her father, Pakistan's first elected Premier, who took over all banks and major industries in one night in 1972.

Today the same faces are relaxed. In a complete turnaround from the socialist policies of the Pakistan People's Party of the 1970s, the emphasis now is on privatisation – a concept Ms Bhutto freely admits is one of the aspects she most admires from Mrs Margaret Thatcher's years in power in Britain.

Ms Bhutto's government is preparing to launch a privatisation campaign prior to selling shares in state owned corporations next year to raise badly needed revenue.

The five companies shortlisted for privatisation are the Sui Gas Transmission Corporations (North and South), Pakistan State Oil, Habib Bank and Pakistan International Airlines. The first flotation will take place in May.

The government hopes to raise Rs1.5bn (£45.5m) in time for the next budget in June, which must bring the deficit down from 6.7 per cent to 5.5 per cent of GDP in line with an agreement with the International Monetary Fund.

With the government unable to raise revenue by taxes and many public sector corporations taking heavy losses, moves towards privatisation began in the last years of the late President Zia's military regime.

Since 1985, successive budgets have included Rs2bn disinvestment programmes, none of which has been implemented – partly because of constitutional and legal difficulties, but mostly because of bureaucratic resistance to losing control and the chance to wield patronage. Last July Dr Mehbub ul-Haq, then Finance Minister, set up the National Disinvestment Authority and began deregulation – for the first time allowing the private sector to buy and export cotton and rice.

Many bureaucrats argue that loss-making units should be sold off — not the family silver

When Ms Bhutto took over in December, she immediately quashed fears of nationalisation by commissioning Rothschilds to do a report on the viability of an extensive privatisation programme.

The recently completed report says Pakistan is suitable for privatisation if it is handled properly.

The biggest reservation for Rothschilds was over the depth of the capital market. Moreover, Pakistan has one of the lowest rates of domestic savings in the world, at only 10 per cent – because of its unstable political situation, people prefer to invest in real estate.

Rothschilds have suggested a cautious, step by step approach, starting off by selling shares in one corporation next year and then two more the following year – a timetable which Ms Bhutto has accepted.

Meekhal Asis Ahmad, Chief Economist at the Planning Commission, believes the depth of market is not the real issue: "The money is there, you can see it all around with huge houses and new shopping plazas springing up. The real problem is the image of these corporations as inefficient, corrupt, overstaffed."

He points out that a recent attempt to raise Rs1bn by selling bearer bonds in the country's biggest public sector corporation, the giant Water and Power Development Authority, totally flopped, leaving the banks to buy them. "WAPDA does not have a good image. Nobody has confidence in it so why should they buy its bonds?"

Conscious of the experience of Thailand, which tried to sell off loss-making organisations which no one would buy, Mr Ahmad insists "it is vital that the first sale should be successful, that we begin with something with a good reputation and track record that will sell like hot cakes."

However, many bureaucrats, particularly in the Production Ministry, argue that "sick," or loss-making units should be sold off – not the proverbial family silver.

A big publicity campaign is planned but Ajaz Ahmed, the Vice Chairman of National Disinvestment Authority, who believes "even if the best goods are put on offer, some further incentive may be necessary.

They are not so profitable as to attract the private sector. Why should people invest when they can put money in savings schemes which guarantee 15 per cent interest." He believes that the government should guarantee a 20 per cent dividend for the first five years until "people are share minded."

The government is now negotiating with Rothschilds for the next and most difficult phase of privatisation – implementation. The government will retain at least 51 per cent of the shares in each corporation floated and no one will be allowed to purchase more than 15 per cent. The Prime Minister is keen on strong employee participation on the Swedish model, but Mr Ahmad says "most workers are more interested in a pay rise than to be given shares."

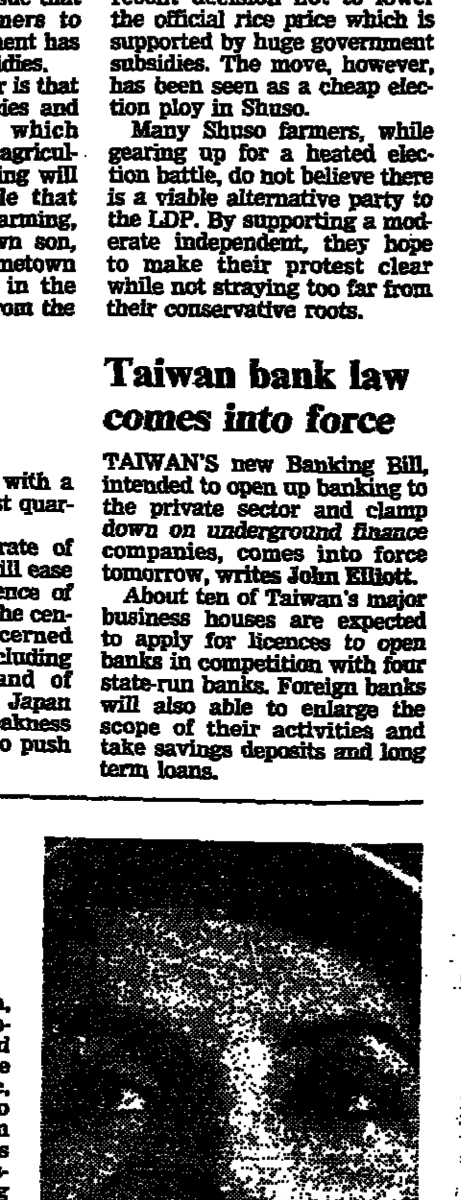
The government will retain at least 51% of the shares in each corporation floated

The government hopes that privatisation will lessen corruption by increasing accountability and make corporations more efficient – run by people with experience in the field rather than civil servants or retired generals.

According to Hakim Ali Zardari, chairman of the Public Accounts Committee, last year public sector corporations sustained losses of Rs1bn. For example the National Shipping Corporation lost R3.640bn, the Pakistan Industrial Development Corporation R2.850bn and OGDC R2.140bn. Last month the Economic Co-ordination Committee, chaired by Ms Bhutto, decided to liquidate the National Construction Company which had suffered a loss of R5bn – the first time in Pakistan's history that a loss-making organisation has been folded.

Twelve of the 14 sectors in which the 69 public sector corporations operate are profitable, the losses occurring in the transport service and construction. In 1987-88 the mining and manufacturing sectors turned from loss to profit, though this year manufacturing profits almost halved. According to official figures, overall total post-tax public sector profits increased 605 per cent from R0.97bn to R6.85bn between 1986-87 and 1987-88. One of the biggest problems is overstaffing, and private sector involvement is likely to mean the loss of many jobs – something the government, already facing 25 per cent unemployment and high expectations, is eager to avoid.

Despite such fears, Ajaz Ahmed believes this time there is no going back: "Privatisation is the need of the hour and we are already in the nuts and bolts stages."



Benazir Bhutto: quashed nationalisation fears

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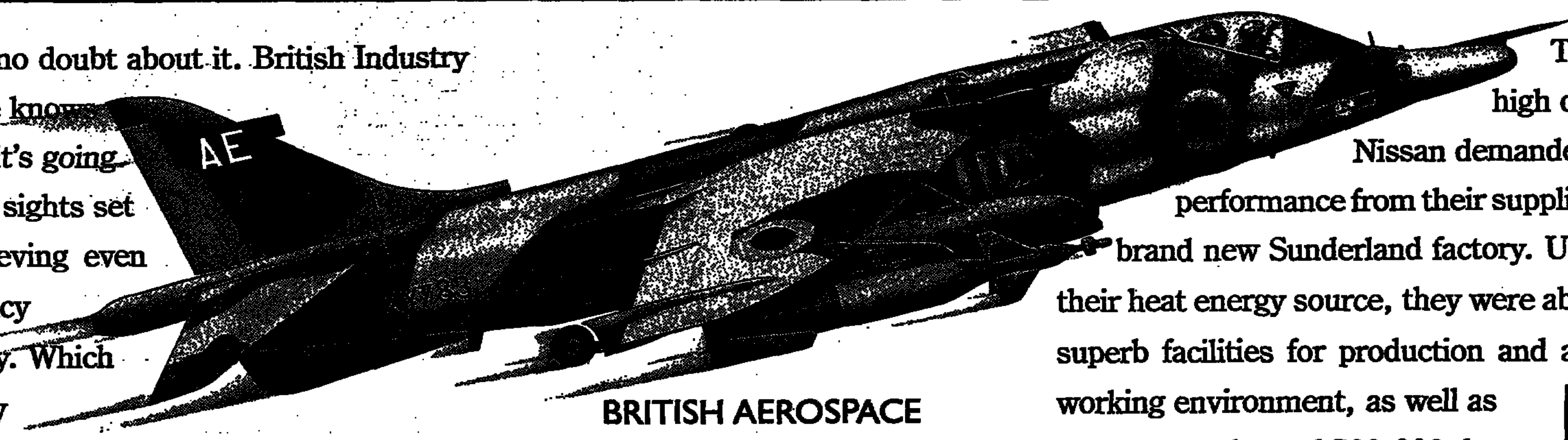

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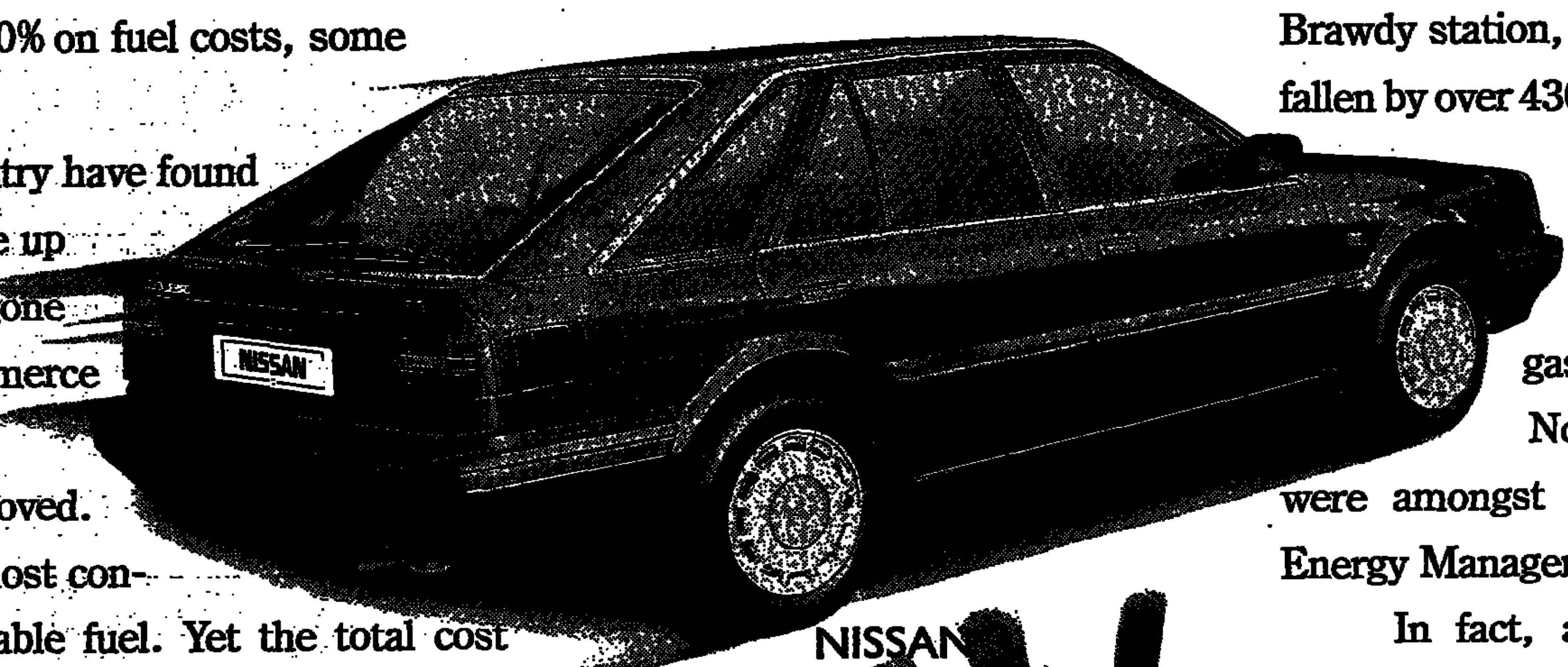

NISSAN

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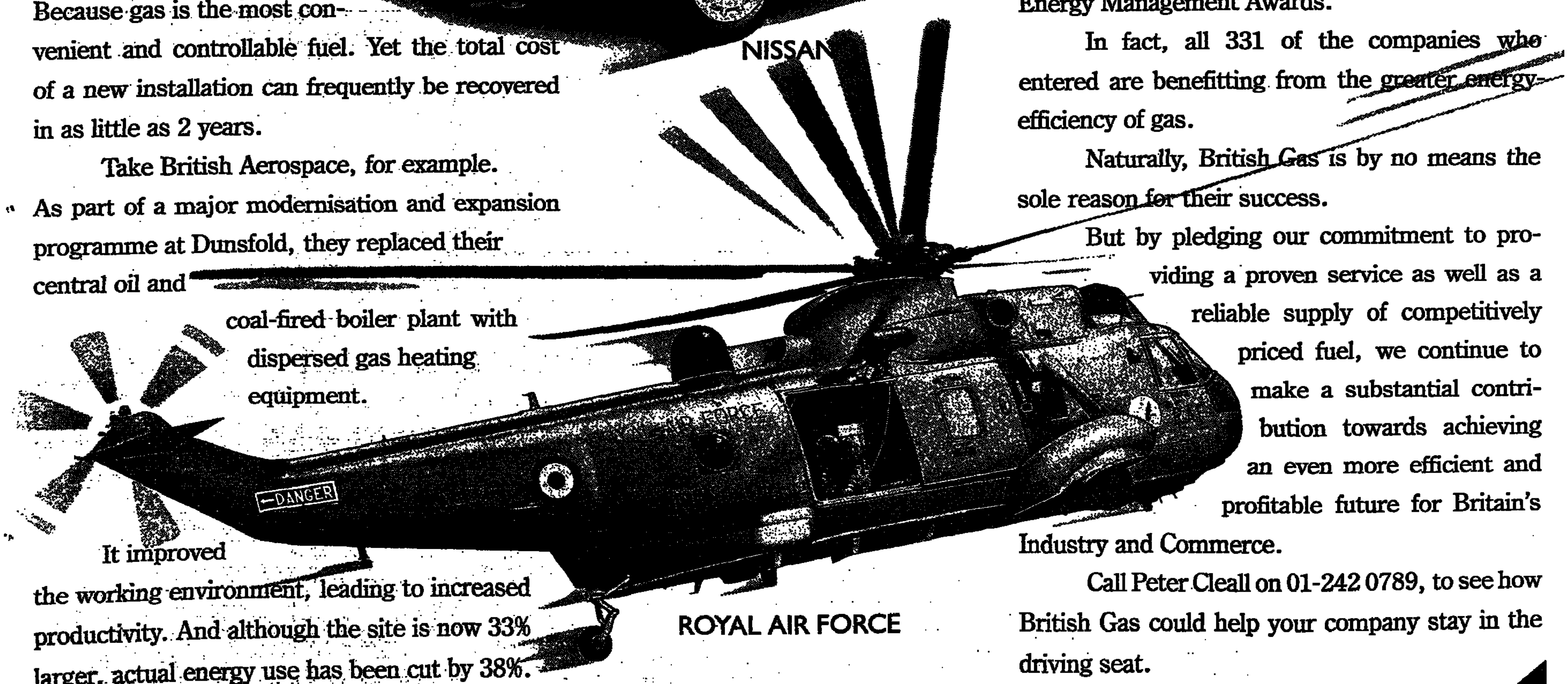

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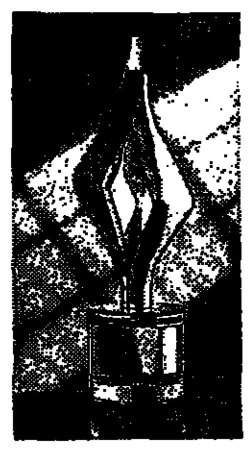

THE GEM AWARD

And in the case of the RAF's Brawdy station, energy use has fallen by over 430,000 therms a year, a saving of 31%, by replacing two centralised oil-fired boiler houses with localised gas boilers.

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ENERGY IS OUR BUSINESS

AMERICAN NEWS

1991 US budget deficit concern

By Anthony Harris in Washington

THE US budget deficit for next year will be only just above the target level on current trends, but the deficit ceiling for 1991 looks out of reach, according to projections released yesterday by the Administration.

The figures came in the White House's revised mid-term economic projections, which will be the basis for forecasting the 1990 fiscal deficit.

It is this forecast, due on August 25, which will determine whether Congress has kept within the limit of $100bn set by the Gramm-Rudman deficit reduction law, in its final budget decisions; Mr Richard Darman, the Director of the Office of Management and the Budget (OMB), said yesterday that on present policies the target would be narrowly missed, but that the gap could be closed.

Growth is now predicted at 2.7 and 2.6 per cent for 1989 and 1990, compared with 3.5 per cent; Treasury bill rates at 8 and 6.7 per cent, compared with 7.4 and 5.5 per cent, and inflation (the GNP deflator) at 4.2 and 4.1 per cent compared with 3.7 and 3.5 per cent.

The deficit for the current year, which ends in October, is now forecast at $148.3bn, down from $164.1bn, reducing the cuts needed to achieve a $100bn deficit in 1990. Current congressional policies are said to imply a projected deficit of $110.5bn, just exceeding the 10 per cent leeway allowed under the Gramm-Rudman law.

The White House is campaigning for support for its proposed cut in the capital gains tax, which the Treasury claims would yield $5.3bn in extra revenue and would bring the budget well within the target range; but the Democrats have rejected this as a concession to the rich and argue that any gains would be exhausted in the first year, making the task of achieving the 1991 target still more difficult.

The OMB report makes it clear that 1991 remains a grave problem. The Gramm-Rudman target is for a deficit of $64bn, but current White House policies would produce a $85bn deficit and those of Congress a $105bn gap, according to the mid-term projections.

The new projections mark a large step towards a forecast for the economy which is consistent with the consensus, though they remain somewhat more optimistic. In both respects the revision follows the pattern of recent years. Dr Michael Boskin, the chairman of the Council of Economic Advisers, pointed out that the White House growth projections have in fact been too low in 1987 and 1988.

The changes are not all unfavourable from a fiscal point of view. While lower growth and higher interest rates will reduce revenue and raise outlays, the higher inflation assumption implies higher revenue in the un-indexed US tax system.

Salinas finds consolation in an electoral defeat

Richard Johns looks at Mexico's ruling party and its public relations exercise at the polls

THE victory of the right-of-centre National Action Party (PAN) in the strategic state Baja California Norte represents a historic change in the complex nature of Mexican politics.

For the first time, the country's ruling Institutional Revolutionary Party (PRI) has conceded the loss of a state governorship and legislature to an opposition party.

Acceptance of such a loss may have been painful to many of the PRI old guard, but President Carlos Salinas de Gortari early on recognised that defeat would reap more dividends both at home and abroad. In this sense he has delivered on his commitment to clean and transparent elections.

Nevertheless, this public relations exercise has appeared gauche against the behaviour of the government-controlled electoral machinery in four other state elections, which were also held on July 2, and another on July 12.

Indeed, there appears to have been a deliberate attempt to ensure the wholesale defeat of the candidates of Mr Cuauhtémoc Cárdenas Party of the Democratic Revolution (PRD) in his home state of Michoacán.

Mr Cárdenas, who last year emerged as the leading opposition figure was a popular PRI Governor of Michoacan from 1980 to 1986.

In the legislative and municipal elections in the states of Chihuahua, Zacatecas, Campeche and Durango the PRI has claimed its familiar clean sweep against less apparent opposition.

The election results therefore, the first real test of President Salinas after six months in office, cast doubt as to how fast he can, and will, move towards a more genuine politically pluralistic society.

The opposition parties for their part believe that Mexico can only overcome its economic problems in such a pluralistic environment.

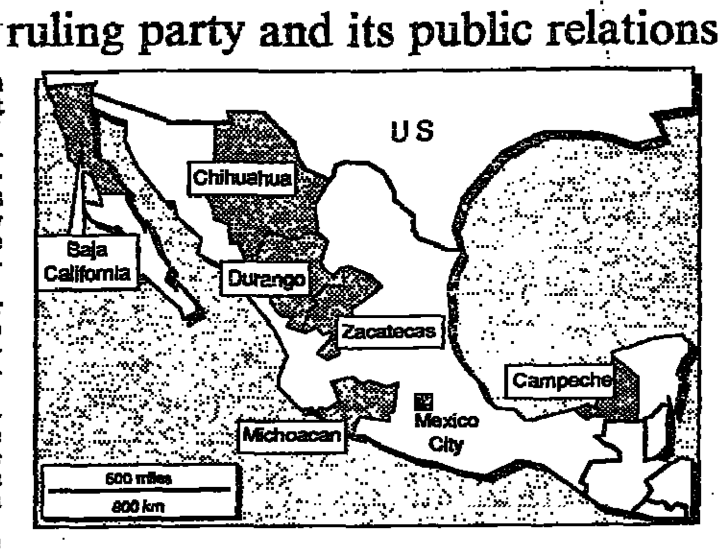
The PRI had hitherto assiduously sought to combat the challenge of the PAN in the northern border states which see themselves increasingly in the orbit of the US.

Timid openings towards the PAN in the early stages of the previous de la Madrid administration were soon forgotten and old ballot-rigging practices soon prevailed.

Fraud in the northern states became the focus of international attention in 1986 when the PAN was deprived of victory by PRI chicanery in Chihuahua state elections.

According to recent testimony from Mr Rodolfo Gonzales Guevara, a veteran former Secretary-General of the PRI and now a somewhat disgruntled leader of the reforming "Critical Current" in the ruling party, the PAN was robbed by vote manipulation of victory in Baja California Norte in the last three gubernatorial races.

But this year, there was more at stake than just containing the PAN. President Salinas had made a commitment – re-emphasised in the regime's recently published 1989-94 National Development Plan – to hold clean elections.



This followed last year's flawed and hotly disputed national poll in which Mr Salinas defeated Mr Cárdenas, who was standing on a broad nationalist leftist ticket for the now defunct National Democratic Front, to gain the presidency.

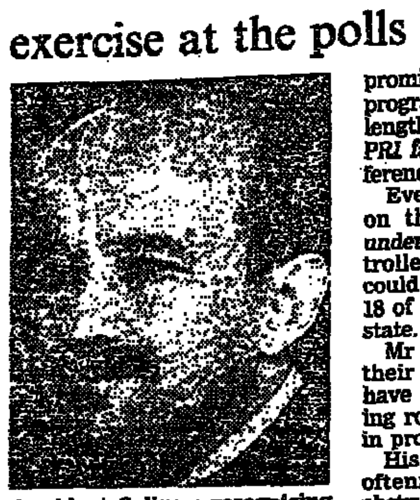
Just before the July elections Professor Wayne Cornelius, an expert on Mexico and its relations with the US, went so far as to say at a seminar in San Diego that the only way that the PRI could win was by losing.

The consensus amongst independent analysts and observers watching the elections in six states - with the governorship only at stake in Baja California Norte was that conceding power in that state was decided upon in the Palacio Nacional in Mexico City.

In Baja California the PRI certainly did their best to win over hearts and minds. Fiscal austerity notwithstanding, a $670m development plan for the state was announced, and the PRI sent hundreds of party workers to confront the PAN. Earlier this year in preparation for the poll, the unpopular incumbent Governor, Mr Xicotencatl Leyva, was sacked.

Well before the poll there, PAN supporters claimed to have detected "phantom" voters had been added to the register in Tijuana. All the evidence pointed to local official preparing malpractices.

Yet in the event it was the local PRI activists who were dismayed and angry when two



President Salinas; recognising the dividends of a defeat

days after the poll, Mr Luis Donaldo Colosio, President of the PRI, acknowledged that the voting trend was in favour of the PAN. "Get out . . . death to *chilangos* (people of the federal capital)," they were reported to have shouted.

The calculation in Michoacan, a poor state in the South-West, was clearly very different. In last year's national elections, Mr Cárdenas won 64 per cent of the vote compared with Salinas's 23 per cent in the state.

The PAN candidate, Mr Manuel Clouthier, obtained only 12 per cent. The Cárdenistas left-wing coalition obtained one of the two seats for the Senate and 12 out of 13 of those allotted for Chihuahua in the National Assembly.

To counter-balance such a vote in 1988, the government promised a $900m development programme and went to great lengths to drum up the local PRI faithful and to exploit differences in the Cárdenas camp.

Even assuming some success on this front, it is hard to understand how the PRI-controlled electoral commission could claim the party won all 18 of the seats available in the state.

Mr Cárdenas' supporters for their part are claiming they have won all 18 and are blocking roads throughout the state in protest.

His poll-watchers operating oftenm against considerable obstruction from the electoral authorities – just as the PAN vigilantes in Baja California Norte – monitored the voting in nearly all the booths and have calculated that 64,678 votes were arbitrarily invalidated.

Some of the alleged "irregularities," which Mr Cárdenas intends to expose to the world media soon, have been standard PRI tactics. The main cardenista charge is that en route from the voting booths to the central counting house the figures changed remarkably in favour of the PRI.

The decision to concede in Baja California, but to hold the line in Michoacan, reflects a PRI calculation about the nature of the opposition and the political threat that it poses. Thus it seems that despite Baja California Norte, the PRI leopard in the form of President Salinas has not changed its spots, but merely bleached them.

US reports progress on chemical arms ban

THE US and Soviet Union have made substantial progress on a draft treaty banning chemical weapons but difficulties remain over verification, the State Department said yesterday, writes Lionel Barber in Washington.

At a recently concluded negotiating session, US and Soviet representatives reportedly reached agreement on a "mathematical formula" to eliminate chemical weapons arsenals over a 10-year period. They also agreed in principle to a comprehensive exchange of data, including sites for their production and storage.

A US official said: "We did get a fair amount of progress, more than anyone originally expected. But its not true that we're on the edge of a ban on chemical weapons."

The New York Times yesterday quoted Mr Max Friedersdorf, head of the US delegation to the Geneva Conference on Disarmament as saying: "We reached agreement on a very complete, detailed proposal for the conduct of challenge inspections [of sites]."

Diplomats said, however, that it was premature to suggest that the two superpowers had struck a workable verification agreement.

President George Bush, returning home after his European tour, reacted sceptically to the report which said that the US and Soviet Union had reached agreement on "key elements" of a treaty banning chemical arms. "It would be a pleasant surprise," Mr Bush said. "Verification is what has thwarted agreement all along."

Mr Bush has made an international agreement on chemical weapons a priority since he tabled a draft convention in Geneva in 1984. Such a convention would be like the Nuclear Non-Proliferation Treaty and could provide for an international agency to monitor compliance which would go beyond military facilities and include civil chemical industrial sites.

Even a superpower agreement, however, would not address the problem of the growing number of supplier nations.

Work on a chemical weapons convention has been going on for eight years in Geneva. US and Soviet negotiators have been working separately on an agreement which, they believe, could give a lead to the 40 other nations attending the Geneva conference.

Brazil unveils record monthly trade surplus

By Ivo Dawnay in Rio de Janeiro

BRAZIL has reported a $2.2bn trade surplus for June, the largest for a single month. The outcome gives a $9.2bn result for the first half, which is also a record.

The sharp improvement on the previous two months has been, in part, attributed to exporters holding back sales in anticipation of devaluations of the New Cruzado's exchange rate.

Traders rushed ahead with sales early this year in anticipation of January's economic package. After taking advantage of high domestic interest rates, they have now returned to supplying foreign markets.

Mr Namir Salek, the director of Cacex, the state trading agency, singled out steel products, vehicles and components and soya as leading the export surge which totalled $3.69bn – up 21 per cent on the same month last year.

Imports also increased, though less substantially, rising $32m on May to $1.48bn. Independent economists believe that a recent 5.5 per cent increase in industrial output has come as a result of widespread destocking during the price freeze earlier in the year.

The positive result has led Cacex to increase its forecast for the year-end surplus. Some now believe that the $16.5bn originally predicted could rise to a record for a calendar year, possibly above $19bn.

Announcing the results, Mr Salek took pains to dismiss a claim by an independent economist last week that under-invoicing of exports and over-invoicing of imports meant Brazil was set to lose as much as $10bn in foreign exchange earnings this year.

Mr Salek argued that only about $6bn in export products could be subject to illegal reporting.

There is speculation that foreign exchange reserves could rise to $8bn in September – the month a large $2.33bn debt interest payment to foreign banks is due.

Argentine state groups 'face $5.5bn deficit'

By Gary Mead in Buenos Aires

ARGENTINA'S state-run companies will be in deficit to the tune of $5.5bn this year on current performance, Mr José Roberto Dromi, the head of Argentina's Ministry of Public Works (MOSP), said yesterday.

Since taking office on July 8 President Carlos Menem has appointed "interventors" in 11 of the major state-run companies. Their daunting 180-day task will be to make a complete inventory of the financial situation of their respective entities.

Mr Dromi said at a press conference on Tuesday that "there is no possible solution in Argentina [of its economic crisis] without reform of the state."

Argentina's current two-pronged economic crisis, of inflation now running at 200 per cent and a widening fiscal deficit in excess of 15 per cent of gross domestic product, has given rise to urgent planning by President Menem's economic team.

The operating deficits of the 10 largest state-run companies will range from $1.026bn in the case of the oil company Yacimientos Petrolíferos Fiscales to $22m in the case of Obras Sanitarias Nacional, which deals with sewage disposal.

The deficits are financed in a variety of ways, ranging from straight subsidies from the treasury through transfers of cash, bonds and creative accounting.

Mr Dromi revealed that there are some 40,000 judicial cases outstanding against publicly-owned companies, many a result of failure to pay bills on time, or at all.

Mr Dromi's analysis of Argentina's public sector is preparatory to moves by the Peronist government to effect what he called a "serious adjustment" in public spending, the focus of which will be a law permitting the privatisation of all state-owned companies. The privatisation bill is due to be presented to the Senate, the upper house of Congress, in the next few days.

Guatemalan army weighs its might

Anson Ng looks at the pivotal military role amid rising discontent

IT IS characteristic of Guatemala's defence minister, General Hector Alejandro Gramajo Morales to remark, forthrightly, that on the one hand "the army directs the president, but on the other the president also manipulates the army."

President Vinicio Cerezo Arevalo has counted increasingly on the backing of a military faction headed by the controversial general, a pillar of the Christian Democrat Government, to prop up his beleaguered administration since taking office in January 1986. The alliance has weathered *two* coup attempts and several political plots.

Nonetheless, buffeted by pressure groups from the extreme right, cracks in the partnership are emerging and there is speculation that the US-trained General Gramajo, the central target of the coup plotters, will be substituted by an army hardliner. Such a development would undoubtedly circumscribe President Cerezo's movements.

The common notion which unites the military plotters and their civilian allies is that General Gramajo's counter insurgency campaign is failing and that his populist tendencies will pave the way for an eventual Communist takeover.

The militants within the ultra-conservative business community, upset by the government's tax package, are thought to have provided financial help for the coup bids.

The hardliners advocate a war to annihilate the almost 30-year-old guerrilla movement. In contrast, General Gramajo stresses the importance of extending the fight into the political arena.

To the annoyance of the business sector, he has also criticised "feudal" land owners and labelled the far right as "subversives," a term hitherto reserved for the leftist guerrillas.

Talks held with the URNG leftist rebels in Madrid in 1987, when the Guatemalan army was suffering notable casualties, particularly enraged the officer corp. The guerrillas, formerly over 5,000 strong have been reduced to about 1,500 combatants but they have continued to ambush army patrols, harass oil exploration teams and raid coffee farms.

The presence of Russian and Cuban journalists and by the return of prominent exiled opposition leaders is another irritant. Discontent in the armed forces has been further fuelled by relatively meagre amounts of military aid from the US (about $9m in "non-lethal" *equipment which* excludes armaments).

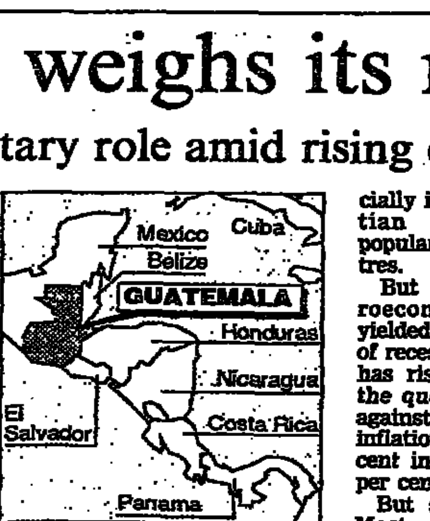
Critics of the Cerezo Government believe the flow of US aid has been curtailed by Guatemala's reluctance to adopt an openly anti-Sandinista stance. US diplomats, however, insist that the flow of aid has been hampered by budgetary constraints.

The most recent coup threat, in May, will almost certainly prompt concessions to appease the reactionary faction within the military, just as in the aftermath of the military revolt last year.

"These coup attempts are like heart attacks. They kill part of the system and affect the whole body. To survive, the patient has to accept certain restrictions." observed Juan Jose Rodil Peralta, the former Minister of Interior, who was removed in the wake of the 1988 army uprising. Mr Rodil was accused of forming a parallel security unit to challenge the military.

Mr Cerezo will probably be forced to divert already scarce resources to beef up military spending, to deploy more "aggressive" battlefield tactics against the URNG guerrillas and to narrow the political space granted to the left.

It is also rumoured that the President has had to grease the palms of several top army commanders to ensure their loyalty. *Fear of a backlash from* fellow army officers means that coup plotters are more likely to be discharged from



the armed forces or exiled rather than jailed. Several *army officers have already* been released while defence lawyers have disrupted proceedings by arguing they are unconstitutional.

The Government has secured a significant slice of the power traditionally monopolised by the economic oligarchs and the military. But the upshot of the military's still considerable influence in security matters, domestic policies and foreign affairs is that further talks with the guerrillas is off the agenda, contacts with the Soviet bloc have been ruled out and the security forces have escaped punishment for human rights violations.

Mr Cerezo has evidently eschewed radical structural reforms, instead, implementing an orthodox combination of monetary and fiscal measures designed to stabilise the economy. The aim is to generate funds "to pay the social debt" of political instability generated, as the Government sees it, by rebel movements.

Cynics, however, view the state's social and infrastructure investment projects as a means of winning the vote of the rural electorate in the presidential elections scheduled for late 1990.

The support of the Indian majority in the rural communities is considered crucial, especially in the light of the Christian Democrats' fading popularity in the urban centres.

But the Government's macroeconomic policies have yielded results. After six years of recession, per capita growth has risen steadily since 1987, the quetzal has strengthened against the dollar and annual inflation is down from 45 per cent in April 1986 to about 14 per cent in June 1989.

But social tensions persist. Most of the population lives below the poverty line. Illiteracy is widespread, infant mortality is high and over 40 per cent of the labour force is under or unemployed.

The government's pledge to *help the poor has been* hindered by waste and mismanagement. Corruption is said to be rife, at least within the middle and *lower ranks, if not at* the ministerial level.

The police, which is partially supervised by the military, is hamstrung in attempts to tackle an upsurge in crime by inadequate resources, poor training and incompetent personnel. The country's judiciary is antiquated, bureaucratic, short of money and tainted with nepotism.

Like the multiple earth tremors which *have shaken the* country, the coup rumblings are expected to recur. But with over $300m of financial assistance from the US, the European Community and Japan at stake, the odds are that Mr Cerezo will be allowed to complete his constitutional term.

The latest intrigue, codenamed "the Manila plan", has the makings of an Agatha Christie thriller. It involves the estranged first lady, Raquel Blandon, who while on a visit to Cuba supposedly hired Libyan gunmen to assassinate her *husband*. The threats, whether real or invented, have conveniently provided President Cerezo with some breathing space in the face of mounting labour unrest. He has used it as an excuse to retire momentarily to his well-equipped country retreat.

Heathrow should relieve Gatwick chaos, says CAA

By Lynton McLain

THE GOVERNMENT was urged yesterday to remove the ban on holiday charter flights operating from Heathrow Airport to ease congestion at Gatwick, the UK's main base for charters.

The Civil Aviation Authority recommended the re-introduction of charter flights in evenings and at weekends in a report to Mr Paul Channon, Transport Secretary.

The CAA report called for government action on traffic distribution policy for airports serving the London area. It also called for an immediate start on planning additional runway capacity in the south-east.

The extra runway capacity would be needed despite the recommended provision of greater passenger capacity at airports in London and the south-east and at regional airports. The CAA said in its report that the extra runway capacity would be needed "within a few years of the end of the century."

The authority also wants air taxis and corporate business aircraft to be given priority over general aviation light aircraft at Heathrow.

Mr Channon has already given the CAA the go-ahead to do more work on its analysis of runway capacity in the south-east and to produce a computer model of capacity and demand for runways to beyond the end of the century. This work will take a year and will delay the submission of the fully analysed recommendations of the CAA, which were requested by Mr Channon by this month.

The full analysis will not affect the general recommendation by the authority that work must start immediately on planning the extra runway capacity.

The authority also advised Mr Channon in its formal report published yesterday that the Government did not need to introduce regulations to limit access by airlines to London airports.

The CAA said: "The interests of users are likely to be best served if the air transport industry is allowed to develop its own solutions to the shortage of capacity without additional regulatory intervention."

This is in line with general government policy of allowing market forces to determine the distribution of air services between airports, although the Government at one stage considered giving scheduled services priority over charters at Gatwick and placing limits on airlines' frequency of service at Heathrow.

The number of near-misses involving an element of risk in the skies over Britain increased last year, the CAA said in its annual report, also published yesterday.

Traffic Distribution Policy for Airports serving the London area – Advice to the Secretary of State, CAP 559. £5 plus £1 postage from CAA Printing and Publications Services, PO Box 41, Cheltenham, Glos. GL50 2BN.

French see accord on environment watchdog

By John Hunt, Environment Correspondent

BRITAIN has dropped its opposition to proposals for an EC environment agency according to Mr Brice Lalonde, the French Minister of the Environment, who yesterday had discussions in London with Lord Caithness, Minister of State for the Environment.

However, it is clear that neither side envisages a tough regulatory body along the lines of the US Environment Agency. Instead, the European version is seen as an information-collecting organisation to provide impartial scientifically based advice to the EC Commission and the Council of Ministers.

This is in line with the British Government's belief, recently advanced by Mr Nicholas Ridley, Environment Secretary, that such a body is needed to counterbalance what he termed "misinformation" on green issues.

Britain's original fears that such an agency would lead to an infringement of national sovereignty now seem to have been laid to rest.

Mr Lalonde was visiting Britain just as France assumed the presidency of the EC Council of Ministers for six months. He said that France would make every effort during its presidency to establish the new agency and that Lord Caithness had agreed to this in their talks.

The Department of the Environment confirmed that there was a wide area of agreement during the discussions.

Mr Lalonde also emphasised that France would be pressing for standardised EC green labelling of products during its presidency.

That would cover not only the environmentally "friendly" nature of products in shops, but also the way products were produced and disposed of. Mr Lalonde thought that was essential to completion of the internal market in 1992.

France, he said, would also be pressing for a "realistic and workable" directive on freedom of environmental information. "It is a major concern to all our citizens to know what is happening about the environment," he said.

Takeover rivals put business before battles

Hugo Dixon on the surprising new alliance between the warring GEC and Plessey

NEWS of the link-up between GEC and Plessey to apply for one of Britain's new and potentially lucrative personal communications licences is a demonstration of how cool business logic can still prevail in the midst of one of the most acrimonious takeovers the City of London has ever witnessed.

Over the past nine months, the two electronics companies have been fighting each other in the courts, the Monopolies and Mergers Commission and the financial markets.

Plessey and GEC have repeatedly been at loggerheads over the operation of GPT, their telecommunications joint venture, which is the biggest prize in the bid battle. Only a fortnight ago, Mr Stephen Walls, Plessey's managing director, accused GEC of bad faith following the breakdown of peace talks on ending takeover hostilities.

So it was something of a surprise to see the two companies entering into yet another collaborative agreement. Although the prime players, Lord Weinstock, GEC's managing director, and Mr Walls, were not present at the press conference to announce the deal, other executives from the two companies mixed with each other amicably.

The logic behind the link-up is that, in this case, two plus two probably add up to about 10. Separately, neither Plessey nor GEC had much chance of being awarded a personal communications licence. Together, they are the clear front-runners.

Ashley Ashwood

Business partners: Philip Parker, left, of Plessey, Brian Meade, centre, of GPT, and Tom Dougherty, of Bellsouth, at the press conference to launch the new alliance

Personal communications networks, a concept pioneered in the UK, are designed to begin operation in 1992 or 1993. Based on high-frequency radio links, they will compete with the cellular networks run by Vodafone and Cellnet and with British Telcom's fixed-link service.

The Government has already said that one of the new licences will almost certainly go to a consortium led by Mercury Communications, BT's only rival for fixed telecoms. There will be one or two others.

The danger of putting in separate bids was illustrated last year when both GEC and Plessey applied for licences to run a telepoint service, a less sophisticated variety of mobile communications due to start later this year.

GPT originally wanted to apply for a licence; GEC was happy to let it but Plessey blocked it. As a result, both parents put in an application but neither of them received a licence.

Some GEC executives feel that both companies' applications were stymied by acrimony over the takeover bid which had just been launched. The Government could not evaluate the application properly, it is thought, because of uncertainty over who would control the operation at the end of the day.

A joint application, by contrast, has many benefits, including the fact that each player has eliminated its major competitor for a licence.

Although the Government is keen that there should be foreign investors in the new networks, the betting is that it will want majority ownership to be British.

With BT and Racal Telecom prevented from applying because they run the existing cellular networks and Mercury already promised a licence, the only electronics majors still in the running, apart from GEC and Plessey, are STC and Ferranti.

Both of these companies will presumably still want part of the action but it is now difficult to see how either could construct a more formidable consortium than GEC and Plessey.

GEC and Plessey will each have a 30 per cent stake of the new consortium. BellSouth, the large US telecommunications operator, will have 20 per cent and a further 20 per cent will be reserved for other partners.

The inclusion of BellSouth is designed to convince the Government that the group will have expertise in operating networks as well as developing the technology. It will also mean that the new venture will not be an awkward 50-50 joint venture such as GPT, where neither side has overall control.

Moreover, in the event that GEC takes over Plessey, there is an arrangement that it will not be able to accumulate a majority stake in the consortium. None of the players, however, would spell out how this arrangement was supposed to work.

The remaining 20 per cent could be used to bring in a number of partners from continental Europe. This would help ensure acceptance of the new technology throughout Europe, which is considered essential if sufficient economies of scale are to be built up.

There was speculation last night that Siemens, GEC's partner in the bid for Plessey, might be involved. However, Mr Brian Meade, who is responsible for the application from GEC's end, said that although this was a possibility the matter had not yet been discussed with the West German company.

Last big British radiator maker faces sale

By Richard Tomkins, Midlands Correspondent

IMI, the Birmingham-based industrial group which is Britain's only large independent manufacturer of car and lorry radiators, yesterday said it was in discussions over the possible sale of the division.

The move follows less than a month after the purchase of Britain's only other large independent radiator manufacturer – Llanelli Radiators of South Wales – by Calsonic, an associate of Nissan, Japan's second largest car maker.

One company known to have entered discussions with IMI over its radiator business is Nippondenso, the Japanese car components giant which is an affiliate of Toyota, Japan's biggest car maker.

Toyota has recently announced plans to set up a car assembly plant in Derbyshire and an engine plant in North Wales.

Nissan, meanwhile, is already building cars at its UK plant in Sunderland.

The latest advances on the UK radiator industry provide further evidence of the way in which multinational vehicle component makers are keen to parallel car manufacturers' moves into the fast-growing UK automotive industry.

Other recent examples have included the purchase of Delanair, Britain's biggest car heating company, by Valeo of France, and the purchase of Armstrong Equipment's shock absorber division – again, the UK's biggest – by Monroe Auto Equipment of the US.

IMI Radiators has annual sales of £30m. It employs just under 900 people, some at its headquarters and main factory in Shipley, West Yorkshire, and the rest at two other factories in nearby Leeds.

Its output consists mainly of high-performance and specialised radiators for cars, lorries, tractors and construction equipment. The biggest customers for its car radiators are Volkswagen, Jaguar, Volvo, Mercedes Benz and Ford.

Most radiators for UK volume car production are made either by the car manufacturers themselves or bought in from affiliates or overseas suppliers.

IMI emphasised yesterday that it was examining a number of options for the future of its radiator business including outright sale, some kind of joint venture, or retention. A decision, it said, was unlikely before September.

LLANELLI Radiators, the former Rover Group components subsidiary bought by Calsonic of Japan last month, is to open a manufacturing facility at Shildon, County Durham with an initial investment of £2m, John Griffiths writes.

The plant, which will make vehicle heating systems, is to go on stream within the next three months. It is expected to employ 50 people by the end of the year and initially will supply Nissan's car-making operations at Sunderland, Tyne and Wear.

Closure of Whessoe workshops will cost 260 jobs

By Ian Hamilton Fazey, Northern Correspondent

WHESSOE, the heavy engineering and plant construction group, is to close its workshops in Darlington, County Durham, over the next 12 months, with the loss of 260 jobs.

Mr Chris Fleetwood, chief executive, said last night the company's heavy engineering division had struggled to work at full capacity since nuclear power stations had switched from advanced gas cooled to pressurised water reactors.

He said: "We are looking for a better strategic balance that will build on our strengths in design, manufacture and systems control. In future we will sub-contract our heavy manufacturing."

Whessoe's Darlington shop had specialised in making plant for the gas cooled system, particularly at the Heysham and Sheerness nuclear power stations.

Sizewell, currently under construction, uses the pressurised water system.

The company will continue to employ about 800 people, of whom 110 will be in a new systems and controls division to be housed in a new factory in Newton Aycliffe, about eight miles across the A1(M) road.

About 100 will remain in Darlington at the company headquarters, where Whessoe's projects team and computer division will also be based. Whessoe also owns Altons, a high pressure pipework manufacturer in Derby, as well as subsidiaries in Australia and Ireland.

DTI curbs brewer sales of free pubs

By Lisa Wood

BRITAIN'S big brewers will not be able to sell off pubs freed of the tie without disposing of an equal number of their tied outlets, Lord Young, the Trade and Industry Secretary disclosed yesterday.

Lord Young, who last week announced that brewers owning more than 2,000 pubs would have to release from the tie 50 per cent of their outlets over that number, was giving evidence before the Commons agriculture committee, chaired by Mr Jerry Wiggin. The tie is the system in Britain whereby a pub tenant is obliged to take his brewery owner's beer.

Lord Young said the formula was "dynamic" because future acquisitions and disposals would be affected.

He said brewers who decided to put low barrelage rural pubs into their quota of free houses and then decided to sell them might think twice if they then had to free a similar number of their tied houses in order to satisfy the 50/50 ratio.

Lord Young said he had taken a step-by-step approach to the report of the Monopolies and Mergers Commission and there would be a review in three years to see whether or not competition had improved in the industry.

Banks offer capital to small businesses

By Charles Batchelor

TWO British clearing banks, Barclays and National Westminster, are to offer venture capital finance to small businesses. This is the first significant move by British banks to provide equity finance for small business.

Both banks, which already have specialised venture capital subsidiaries, will provide small amounts of equity finance through their branch networks for the first time. The two banks are training selected branch managers to handle venture capital inquiries.

Barclays has allocated £20m to venture capital over the next two years, though this sum will be increased if there is sufficient demand. The bank will provide amounts of between £100,000 and £500,000 to help companies which are starting up and established small businesses which want to expand.

Barclays' managers will handle initial inquiries but the assessment of the business proposal and the monitoring of the companies' progress will be done by Baronsmead, an independent, London-based venture capital company. Barclays will second its own staff to Baronsmead to gain experience.

The Barclay's scheme will be launched in September through the bank's 327 business centre branches. Investments will be assessed on conventional venture capital basis.

National Westminster Bank, meanwhile, is this week extending a pilot venture capital scheme throughout its branch network. It has already made three equity investments worth a total of about £1.5m under the pilot scheme.

Natwest has for the past three years run a Growth Options scheme under which it provides subordinated loans to small businesses with an option to convert some of the loan into equity. It has made loans worth £15m but expects this figure to increase to £25m by the end of 1989. The new scheme involves straightforward equity investments.

Business 'key to satellite profits'

THE REAL profits from satellite communication will come from business services rather than the much higher profile satellite television, according to a new report.

A review of satellite communications in Western Europe by CIT, the communications research group, forecasts that annual revenues from business services will total $1bn by 1999.

New Satellite Communications in Western Europe 1989. CIT Research, 28 Dering Street, Hanover Square, London W1R 9AA. £3,985.

OFT to be given more power to enter and search businesses

By David Churchill

SIR GORDON Borrie, director general of fair trading, already one of the most powerful men in British business, is to get wide-ranging new powers of entry and search to weed out anti-competitive practices in industry.

The move, announced by Lord Young, Trade and Industry Secretary, in a white paper on restrictive trade practices, will give Sir Gordon the powers to uncover price-fixing cartels and other restrictive practices he has been seeking for the past decade.

Sir Gordon and his officials at the Office of Fair Trading have only been able to take action against price-fixing cartels, collusive tendering and other restrictive arrangements after they had firm evidence that such anti-competitive behaviour was taking place.

This has meant that the OFT has relied heavily on informers for its information – a practice which OFT officials believe has allowed numerous corporate examples of anti-competitive behaviour to escape censure.

Price-fixing cartels in the ready-mixed concrete industry, for example, have only come to light more than 10 years after they started operating. Others in the glass industry, recently uncovered by the OFT, have been in force since the 1950s.

The White Paper will give the director general of fair trading the authority to "investigate on reasonable suspicion" any cases of restrictive practices.

Companies and individuals will have to comply with OFT requests for information. If they do not, the director general of fair trading will be empowered to seek a magistrate's warrant to "enter business premises, without warning and using reasonable force if necessary, to search for, examine and remove business records and take copies of them."

It will be a criminal offence to obstruct the director general or deliberately supply false or misleading information.

Although the new powers of collecting evidence will give teeth to the OFT in uncovering restrictive trade agreements, the Government has held back from its initial proposal to give Sir Gordon the power to enforce the new legislation.

In a Green Paper published early last year, the Government had suggested that the OFT be expanded to include hearing appeals against prohibited restrictive trade agreements and to impose financial penalties of up to 10 per cent of total UK turnover.

However, the Government has decided that giving Sir Gordon the power to enforce the law and impose penalties "would not be appropriate to a single appointed person."

Instead the Monopolies and Mergers Commission is to be strengthened by the appointment of 10 further part-time members who will form a restrictive trade practices panel. Their job will be to sit in panels of three to reach final decisions when the published conclusions of the director general of fair trading are disputed and to impose penalties in appropriate cases.

The proposed new legislation – to be brought in when parliamentary time permits – will be the first overhaul for restrictive trade legislation in the UK for more than 30 years.

The present legislation covering restrictive trade agreements – in the view of the Government and most of those who responded to last year's green paper – is too inflexible and slow and too often concerned with harmless agreements while letting other cases go unpunished.

The present system is based on the premise that all restrictive agreements between two or more parties have to be registered with the registrar of restrictive trade practices in London, and then can operate lawfully until the Restrictive Practices Court rules otherwise. Those agreements not registered are automatically declared null and void – if uncovered by the OFT.

The Government's new approach will be to concentrate on the effect of restrictive agreements rather than their form. Thus the new legislation will remove the automatic need to register agreements but will place a blanket prohibition on any agreement which "prevents, distorts or restricts competition."

Public borrowing rise may reflect slower growth

By Simon Holberton, Economics Staff

SIGNS THAT the slowdown in economic activity may be feeding through to the Government's finances were indicated yesterday when the Treasury disclosed that the Government had borrowed £700m in June.

In the first three months of the financial year, the public sector borrowing requirement was £200m. In the same period last year, the Government had repayed £1.2bn of debt and was well on course for a record debt repayment of £14bn.

Mr Nigel Lawson, the Chancellor, forecast a surplus of £14bn in the Budget; he hinted subsequently that it could be up to £2bn less than that because of the effect on revenue of the take-up of personal pensions.

The June PSBR figure was the third in succession that was worse than analysts had expected. However, they are all the same reluctant to change their forecasts of a large debt repayment this year.

They point out that, although Mr Lawson will lose some revenue, he could more than recoup it through higher inflation, strong growth in earnings and employment. On the spending side, the Government remains committed to rigorous spending controls.

Mr Simon Briscoe, the economist at Greenwell Montagu, said there was still not enough evidence to conclude that either Mr Lawson was too cautious in his forecast, or that he had himself been too optimistic in forecasting an £18bn debt repayment.

The PSBR figures in July may give a better indication of the likely size of the Government's budget surplus. This month is an important tax-paying month for companies, and large corporate tax payments would indicate another good year for the Revenue, he said.

The PSBR in the first three months of the year, excluding privatisation receipts, was £2bn. This compares with £1.2bn for the same period last year. So far this financial year, the Government has raised £1.8bn from the privatisation of public assets against £2.8bn in the same period last year.

Inland Revenue receipts in the April-June period were 4½ per cent up on the same period a year ago, while receipts from customs and excise duties, were 8 per cent higher.

In the first three months of the fiscal year supply expenditure was 11 per cent higher than in the previous corresponding period, although only 8 per cent up if changed methods of paying Scottish local authority grants are included.

Minister hits back at monetarist critic

By Martin Wolf

MR PETER Lilley, Economic Secretary to the Treasury, yesterday defended the Treasury's monetary policy against attack from the monetarist economist, Mr Tim Congdon, economic adviser at Gerrard and National, the City discount house.

In remarks to a conference organised by the Centre for Policy Studies, an independent think tank, he argued that Mr Congdon's criticisms were wrong in key respects.

Mr Congdon had argued in a CPS pamphlet Monetarism Lost that the present upsurge in inflation was caused by the abandonment of targeting of the broad monetary aggregates in 1985.

Mr Lilley countered by pointing out that most of Mr Congdon's analysis had been in terms of M3 (which excludes deposits in the building societies), of which the growth rate more than doubled between 1984 and 1987. But growth rates of M4 (which includes such deposits) "were not at all out of the ordinary."

While admitting that inflation in the UK remained higher than in its main competitors, Mr Lilley suggested that the reasons for this were complex. In particular, the relation between economic growth unadjusted for inflation and the broad monetary aggregates had "been anything but close or reliable."

Steering monetary policy on the basis of broad money targets alone "would have produced changes in policy which were erratic and frequently wrong."

Mr Lilley argued not only that the increase in inflation has been exaggerated by the inclusion of mortgage interest, but that "since early 1986, inflation in the UK has risen by no more than other major developed countries."

He advanced three reasons for this increase in inflation worldwide: financial deregulation, the lagged effect of the oil price fall of 1985-1986, and the lower interest rates which followed the 1987 stock market crash. But the effect of these changes were greater in the UK because of the relative importance of the oil sector, the growing confidence of the private sector and the abolition of mortgage relief for house sharers in 1988.

Mr Congdon replied that all measures of broad money had, indeed, shown faster growth from 1985 onwards. Unfortunately, the Treasury continued to misunderstand money, the main element in which was bank and building society deposits, not cash, the component now targeted.

The right solution would not be to join the exchange rate mechanism of the European Monetary System, but to sound the Bank of England the independence enjoyed by the Bundesbank, he said.

Taxing question resolved for road injury victims

Eric Short on a case that made insurance history

LEGAL history and motor insurance history were made in the High Court last week when damages in a motor injury claim were awarded in the form of a structured settlement – part cash sum and part income.

Structured settlements are common in US damage awards, but, until last week, unknown in the UK, where settlement has invariably been as a cash sum.

The advantages of a structured settlement compared with an equivalent cash sum are, first, the general flexibility – in that the structure can be designed to meet the needs of the particular claimant.

Second, it takes out all the guesswork required in agreeing a lump sum award as to the life expectancy of the claimant. The life risk can be passed on to a life company by purchasing an annuity.

Finally, it avoids the problems involved with investing the cash sum to provide an income.

The drawback to structured settlements in the UK was the attitude of the Inland Revenue towards the income element which was regarded as taxable.

However, an agreement was reached in September 1987 between the Treasury and the Association of British Insurers that annuities in damage awards could be paid tax-free.

Last week's case was the first to be arranged in the wake of this agreement, though, ironically, it was a Lloyd's motor syndicate, KGM Motor Policies that arranged the settlement.

However, the tragic circumstances of the case were such that a structured settlement was the most suitable.

The victim, 25-year-old Mrs Catherine Kelly, was involved in a car accident in 1986 which killed her husband and left her in a coma on a life support machine.

The overall settlement of £410,000 took the form of a cash payment of £110,000, with the remainder cash being used to provide an index-linked annuity starting at £2,130.16p a month (£25,561 a year) with payments increasing each year in line with the Retail Price Index. The annuity payments are guaranteed for at least 10 years. All payments are free of tax.

A settlement in this form ensures an income increasing in line with inflation for the rest of Mrs Kelly's life. The 10-year payment guarantee ensures that adequate compensation will have been made should she die soon after the award.

However, the payments are tax-neutral, rather than tax-free. The Inland Revenue requires the annuity payments from the life company to KGM to be net of tax and KGM has to reclaim the tax from the Revenue every year.

KGM is making the monthly payments gross, even though the tax will be reclaimed at the end of the year. Negotiations are still tasking place between the two sides over the tax payment position.

Now the ice has been broken, the way is open for structured settlements in damage cases. Motor insurers are reporting that US firms, experienced in arranging such settlements in their domestic market, are now starting to offer their expertise in the UK.

Motor insurers, in general, are not too concerned whether damages are paid in a lump sum or in a structured settlement.

The former method is clear-cut. A sum is agreed, paid and the claim goes off the books.

With a structured settlement, there is more negotiation in agreeing both the form and the size of the settlement, with experts on both sides giving conflicting views over the life expectancy of the claimant.

This, in turn, could mean more costs in agreeing a settlement. In addition, the case remains on the books until the claimant dies.

Nevertheless, the structured settlement, as an alternative to a cash sum, means there is greater flexibility in the provision of compensation for personal injury and the financial needs of the claimant and any dependants.

Ambulance crews plan ballot on action over pay

By Michael Smith, Labour Staff

AMBULANCE crews are threatening to take their first industrial action in seven years in a dispute which will test the Government's resolve to keep down public sector pay settlements following British Rail's offer of an 8.8 per cent deal.

Nupe, the public sector union, is to press for a ballot on action among Britain's 19,000 ambulance staff after saying yesterday that its 12,000 members in the service had voted by two to one to reject a 6.5 per cent offer.

The unions will meet to consider their next move on Tuesday, ahead of a meeting that day with employers. An overtime ban and a refusal to handle paperwork are likely to be under consideration, rather than all-out strikes.

Unlike other public sector disputes involving the BBC, rail workers and local government staff, the Government has a direct say in the ambulance agreement since Mr Kenneth Clarke, Health Secretary, has to approve a settlement.

Mr Roger Poole, general secretary designate for Nupe, said the Government had backed ambulance workers into a corner. Health authority employers, who are funded by the Department of Health, had said the 6.5 per cent offer was final and had failed to heed union calls to refer the dispute to arbitration, he said.

"The only option left is to take industrial action."

The two to one majority for rejecting the 6.5 per cent offer was achieved in a ballot which attracted a 71 per cent turnout among Nupe members.

Ambulance crew members of the GMB general workers' union voted by a similar majority to reject the proposed deal. Colleagues in Cohse, the health service union, and the TGWU general union are also believed to have voted for rejection.

Mr Poole said 6.5 per cent was considerably lower than other offers in the public sector. "It is crazy and dangerous for the Government to play around with workers in one of the country's three emergency services."

Unlike police officers and firefighters, ambulance crews do not have their pay rises linked automatically to rises among other workers. The unions want their three-year-old claim for inflation-proof rises should go to arbitration along with this year's claim.

The 6.5 per cent offer would increase a qualified ambulance staff's annual pay from £10,093 to £10,749.

Welsh land authority reports record profit

By Anthony Moreton, Welsh Correspondent

THE LAND AUTHORITY for Wales produced a record profit before tax of £7.67m last year, reflecting the strengthening of the Welsh economy, Mr Geoffrey Inkin, its chairman, said yesterday. The profit compared with £1.3m in the previous year.

The Land Authority was set up in 1976 and has no counterpart elsewhere in the UK. Mr Inkin, who presented the authority's annual report in Cardiff, said it existed to put together parcels of land for development.

It had played "a leading role in the regeneration of the Welsh economy."

One package of land in Cardiff's docklands, for instance, where a comprehensive redevelopment is taking place, was in more than 80 hands. The authority was able to bring these divergent interests together quickly into one holding in a way no single developer could have done.

This power has allowed the authority to take a leading part in town centre developments in Cardiff, Caerphilly, Merthyr Tydfil, Llandudno, Newport and Carmarthen.

The authority had been involved in 25 projects during its lifetime, according to Mr Inkin, involving an outlay of £40m which had brought forward £250m of private capital.

Last year, the authority took part in its largest single deal when it bought 2,400 acres outside Cardiff from the BP Pension Fund. Most of this will be prepared for industrial and commercial use as well as housing.

Mr Inkin said that although the authority was precluded by statute from acting as a developer it had given "much-needed assistance to other public bodies in promoting development."

Last year's buoyancy in the land market is reflected in the cost of the authority's land bank, which rose by £5m to £19.5m over the 12 months. The value of the land bank now stands at £51.2m compared with £35m previously.

During the year sufficient land to provide 1,200 houses was sold as well as enough industrial and commercial land to create up to 600 jobs. Disposals during the present year should lead to developments worth at least £100m, Mr Inkin said.

Gifford finds 'horrific' racial discrimination in Liverpool

By Ian Hamilton Fazey, Northern Correspondent

LORD GIFFORD, one of Britain's leading radical lawyers, yesterday called for an official inquiry into race relations in Liverpool and the policing of Toxteth, where rioting eight years ago led to the use of CS gas on the British mainland for the first time.

The first report of Lord Gifford's own inquiry, commissioned by Liverpool City Council last year and published yesterday, says that racial discrimination in Liverpool is "uniquely horrific" and that there is a continuing crisis.

The report attacks motorised policing methods, alleged racism by some officers and warns that the consequences of neglect could be grave if the grievances of the racial minority were not addressed.

Lord Gifford said that a properly-constituted inquiry ordered by the Home Secretary and carried out by a judge would have powers to compel witnesses to attend. His own inquiry, he added, was hampered by the refusal of Merseyside police to co-operate, although he believed individual officers wanted to do so.

The police yesterday deplored the tone and content of the report, and denied many of its allegations. They also described as "absolutely untrue" some claims made by Mr David Scott, a former community policeman in Toxteth and now a pub landlord in Southport. He swore an affidavit for the inquiry which was published as an appendix to the report.

Lord Gifford was expecting Mr Scott, a Merseyside policeman for more than 12 years, to attend yesterday's press conference. However, Mr Scott was arrested in a police raid on his home early yesterday. Merseyside police said that Mr Scott was being questioned in connection with allegations about "serious criminal offences."

Lord Gifford said he wanted any official inquiry to look into the timing of the raid. He claimed that Mr Scott had been stopped and visited by police several times in recent weeks and warned "not to let the side down."

In his affidavit, Mr Scott alleges that senior officers ignored his reports of hard drug dealing in Toxteth and wanted the community to "dope itself up" to "keep the lid on" and avoid further public confrontation.

Lord Gifford's report says that black people in Liverpool have been denied access to jobs more systematically than any other black community in a large British city and that they are exposed to threats, taunts, abuse and violence if they venture outside a confined area of the city.

This leads to a "devastating" lack of mobility, which is not helped by the failure of Liverpool City Council to promote equal opportunities in its own workforce and services.

Mr Keva Coombes, leader of the council, said that the problems would be addressed.

Merseyside Police said that the report had not acknowledged "the tremendous efforts made by this force to carry out its function and at times dangerous task of policing an inner city area."

Loosen the Shackles, a first report of the Liverpool 8 inquiry into race relations in Liverpool by Lord Gifford QC, Wally Brown and Ruth Bundey. Karia Press, London N17 9TR. £7.95.

TV group to impose new work practices

By Charles Leadbeater, Labour Editor

YORKSHIRE Television is to press ahead with plans to implement far-reaching changes to working practices, pay systems and working hours in spite of a staff vote rejecting the changes.

The company is to send letters to the 1,051 staff asking them to sign new contracts of employment by August 4. Those refusing to sign will be warned they could be dismissed from early September.

The company's move follows a ballot in which 516 staff voted to reject the proposals and 311 voted to accept them.

Under the proposals, more than 100 grades would be reduced to eight salary bands crossing technical and clerical grades. Workers would progress through the bands according to appraisals of performance. The company hopes to gradually introduce elements of multi-skilling.

Under the proposals launched in May, the company would form distinct skill groups. Workers within these groups would be trained to perform each of the tasks covered by the group.

The company also wants to reduce overtime markedly by introducing a system under which working hours would be calculated annually.

The YTV proposals are among the most radical yet drawn up by an independent television company in the wake of the break-up of national pay bargaining. National agreements allowed for multiplying overtime payments for irregular hours.

Officials of Beta, the broadcasting union, the ACTT film and television technicians union, the EETPU electricians union and the NUJ journalists union emphasised they wanted to negotiate a settlement to the dispute, possibly through Acas, the conciliation service.

Mr Clive Leach, YTV's managing director, said the company was determined to go ahead with its plans as the package had been recommended by the joint shop stewards committee, after being amended in negotiations.

Mr Leach said he was confident a majority of the workforce would accept the proposals by signing new contracts.

He said the radical changes in the structure and financing of the broadcasting industry meant there had to be radical changes in the way the company operated.

● Union leaders at the BBC will meet today to discuss the next move in their long-running dispute with the corporation over its imposed 7 per cent pay offer. Live television and radio programmes were twice disrupted last week by lightning strikes called in protest at the offer.

Walker extends valleys programme for two years

By Anthony Moreton, Welsh Correspondent

THE VALLEYS programme has been extended for a further two years. It was launched a year ago by Mr Peter Walker, Secretary for Wales, to rejuvenate the economically troubled South Wales valleys.

The programme was originally meant to end in 1991. Mr Walker explained the extension by saying that "the record levels of investment in industrial support, factory building, land clearance, urban renewal, and all the other initiatives involved in the programme are beginning to bear fruit."

Mr Walker claims the valleys have had "a good year" since the programme was launched in the Rhondda. Unemployment fell by 8,200 – with a greater proportionate fall in the valleys than in the rest of Wales or the UK as a whole.

An inward investment project has arrived every two weeks, amounting to a total of 32 which have brought capital spending of £62m and and will eventually create 3,200 jobs.

Some £230m has been granted in regional aid, advance factories have been let at a rate of two a week and private sector involvement in urban renewal has grown.

The valleys have been described as Wales's only area with inner-city problems.

Steel group wins free enterprise body's award

ASW, the Cardiff-based steel company that was the largest management buy-out when bought from its parents, GKN and British Steel, last year, has won the Welsh Free Enterprise Award for 1989.

Two other awards have been granted this year, their first anniversary since being launched by Aims of Industry.

One goes to Mr John Humphries, editor in chief of the Western Mail and newly launched Wales on Sunday.

The other was presented in Cardiff yesterday by Welsh Secretary Mr Peter Walker to Professor Derek Embry, technical director of AB Electronic Products.

Rose campaigners submit alternative development

CAMPAIGNERS seeking to save the remains of the Elizabethan Rose Theatre in London yesterday submitted their own plans for a commercial development on the site.

It would preserve the theatre remains and allow access to the site in Southwark where Shakespeare is believed to have acted.

Members of the Rose Theatre Campaign Committee decided to ask Southwark council to back their scheme instead of the office block proposed by Imry Merchant Developers.

They chose to make the planning application rather than appeal against Monday's High Court refusal to overturn the decision by Mr Nicholas Ridley, Environment Secretary, not to schedule the site as an ancient monument. They said an appeal would have involved heavy costs and significant delays.

Southwark council's planning committee has deferred a decision on the Imry Merchant plan and is now due to consider it later this month. Mr Simon Hughes, Democrat MP for Southwark and Bermondsey, on behalf of the Rose Theatre campaign, said: "We hope that our proposal and our application will be granted, and that the council will either turn down or defer further as being still unsatisfactory the application that Imry have submitted."

Broadcasting unit's merger is opposed

By Raymond Snoddy

THE Broadcasting Complaints Commission, which is responsible for examining complaints of unfairness by broadcasters, yesterday launched a campaign for its own survival as a separate body.

In its annual report the commission rejected suggestions from the Government that it should be merged in some way with Lord Rees-Mogg's Broadcasting Standards Council, the body that monitors the portrayal on television of sex and violence.

"The BCC usually has to establish disputed facts and then reach an objective decision, while the BSC will simply look at undisputed facts and reach a subjective decision on them," argues the commission, which is chaired by Lady Anglesey.

In the white paper on broadcasting which was published in November, the Government claimed it might be "more rational and less confusing to the viewer" if the two bodies were combined, possibly with separate panels for the separate functions.

The commission says its procedures have to be thorough because its work can be compared with a quasi-judicial tribunal, subject to judicial review.

As a quasi-judicial body, the commission's considered view is that it "cannot be merged with a body intended to cover the establishment and monitoring of programme standards in specific areas."

The commission received nearly 350 complaints last year. Twenty-one complaints, all of them involving unjust or unfair treatment were upheld, 12 in part only.

Five were also complaints of unwarranted infringement of privacy.

More women joining top jobs in Civil Service

By Michael Smith, Labour Staff

WOMEN ARE increasingly being appointed to middle and senior management jobs in the Civil Service, say Government figures published yesterday.

Mr Richard Luce, Civil Service Minister, said the increasing availability of part-time work, child care facilities and career break schemes would help the trend to continue.

In Career Break and Childcare Provision in the Civil Service, published yesterday, the Cabinet Office says that in 1988 women accounted for 5 per cent of staff in the top three grades, compared with 4 per cent a year previously.

They increased their representation among grade 5 from 8 per cent to 9 per cent; among grade 7 from 8 per cent to 10 per cent; and among executive officers from 34 per cent to 37 per cent.

Part-time working among women has also increased. In 1987 8.7 per cent of women in the non-industrial Civil Service worked part time but by last year this rose to 10 per cent.

By the end of last year, 15 departments were providing staff with access to holiday play schemes, compared with eight in 1987.

The Home Office, Ministry of Defence and Civil Service College are developing plans for nursery facilities for the under fives and other departments are assessing the likely demand for such schemes.

In addition, 13 departments have established keeping-in-touch schemes for staff who resign for domestic reasons.

In a parliamentary written reply, Mr Luce said: "We cannot afford to waste talent or ignore the skills and abilities of an important and growing section of the labour force."

Retailers sharpen up video's tawdry image

Maggie Urry finds newcomers focusing on the sale and rental of pre-recorded tapes

UNTIL RECENTLY, the reputation of the video rental and retail industry tended to be one of sleazy back-street shops frequented by men in dirty raincoats, renting pirated videos. It was hardly a suitable image if it were to become a growth business attracting a wider market.

Much has been changing, however, as big business has realised the potential of the pre-recorded video market and begun cleaning up the image. Last month saw the launch of a television advertising campaign for a chain of video shops under the banner Hollywood Nites, which will rent and sell videos.

This is a symbol group – along the lines of Spar in food retailing – with 250 shops signed up so far. It is organised by Parkfield Entertainment, a subsidiary of Parkfield, a group which has been diversifying from its original foundry business.

Mr Malcolm Field: British love to collect things

Each shop has a fascia designed to look like an old Odeon-style cinema, and is supplied with stock by Parkfield Entertainment, which claims to be the leading distributor of entertainment products – such as videos, records and tapes – to UK retailers.

Mr Paul Feldman, chief executive of Parkfield Entertainment, promises that Hollywood Nites shops will stick to a code of practice. Eight-year-old children will not be rented the likes of Texas Chainsaw Massacre.

Also moving into the video rental market is Kingfisher which, through its Woolworth chain, claims a 35 per cent share of the retail market for pre-recorded videos – known in the trade as the "sell-through" market.

Kingfisher recently took over Titles, a Manchester-based chain of five rental shops, as a toe-dipping exercise. There are few chains of rental shops and about 5,000 independents. Such a fragmented market offers scope to build market share rapidly.

W H Smith Group, a leading retailer of books and recorded music, and the owner of the Our Price record shop chain, is also anxious to expand in the sell-through video market which it sees as a growth area. Mr Malcolm Field, W H Smith managing director, argues that people in Britain love collecting things such as books and records. So why not videos, too?

Already a close second to Woolworth in the sell-through market through its W H Smith shops, the group is soon to start a six-shop experiment in video retailing. The Video Store, as the shops will be called, will be identified as being linked with Our Price and will use similar systems.

If the test goes well, W H Smith plans to develop a national chain, starting next year. It will not go into the rental business though, which Mr Field believes is less profitable than people think. He thinks video retailing will be as profitable as selling records.

Mr Feldman reckons that 60 per cent of households now have a video cassette recorder and says projections are for that figure to rise to 80 per cent by the early 1990s. At the moment, he says, only about 40 per cent of VCR owners rent pre-recorded videos and a mere 8 per cent buy them.

But, Mr Feldman says, people with VCRs rent fewer videos the longer they have owned the machine. He believes that the rental market will flatten as more people buy and collect videos.

He says the rental market is worth about £500m a year. The sell-through market is smaller, but is catching up and could be worth £300m this year.

Mr Field also expects the rental market to fall eventually, as more people buy videos and prices come down. He predicts that the sell-through market could double this year. "There are not many markets that are growing that quickly," he says.

Ucatt to seek women members

By John Arlidge

UCATT, the construction union, has announced plans to attract more women into the traditionally male dominated building industry in an attempt to counter increasing skills shortages and recruitment problems.

A guide, Blueprint for Equality, published yesterday, gives the union's 10,000 local officials and shop stewards advice on equal opportunity deals, training and sexual harassment.

Women form just 1 per cent of Ucatt's 260,000 members. The union hopes to increase the share to a third by the turn of the century.

The guide says :"By the year 2001 the construction industry is likely to need a workforce which is a million stronger than it is now if it is to meet demand and stave off European competition. The simple fact is that construction has no alternative but to give priority to recruiting women."

Mr Albert Williams, Ucatt general secretary, said: "With the demographic changes which will be taking place over the next few years, it is essential that the construction industry harnesses the skills which women have to offer."

A report for the Construction Industry Training Board last November found that 76 per cent of employers believed many companies would not employ women.

Blueprint for Equality; Ucatt House, 177 Abbeville Road, London SW4 9RL; £1.

UK NEWS – EMPLOYMENT

Unhappy Knapp takes hard line with BR

Fiona Thompson on the NUR leader's vain attempt to promote a more moderate line

MR JIMMY Knapp was a not a happy man when he walked into his 11.14pm press conference on *Monday* night.

The general secretary of the National Union of Railwaymen looked exhausted and drained - a state not simply due to the previous nine hours spent locked in debate with his executive.

Even the traditional cup of tea he always has before facing the press did not appear to have helped - he was a man with bad news to deliver and it showed.

The *NUR's 21-strong* executive had voted by 12 to eight (one member was on holiday) to reject *British Rail's* 8.8 per cent pay offer and to go ahead with yesterday's fifth, 24-hour strike.

Mr Knapp had pushed hard for an alternative course - to reject the offer but to suspend the strike action pending further talks *at* the conciliation service Acas. This was rejected by the same 12 to 8 vote.

He fought his corner but ultimately could not garner enough support for his more *moderate stance.*

After having won almost universal plaudits for his conduct since the five-week long dispute began, Mr Knapp knew he could now *expect* a barrage of government criticism and righteous indignation from British Rail. But more important, he knew that the NUR risked losing at a stroke the sympathy it had won from the travelling public in spite of its four 24-hour strikes.

There was no contingent in the executive voting for outright acceptance of the offer – there were hesitations over both the pay *side* and the question of what BR was actually guaranteeing on bargaining machinery.

On pay, all 130,000 BR staff have been offered 8.8 per cent and the 64,000 staff in London *and the south east* will get between 10 and 15 per cent because of extra allowances.

In spite of its reorganisation in 1978, however, the NUR's executive does not reflect the regional balance of its membership, and executive members representing areas outside London and the south east have a *proportionately higher* weighting on the board.

As a result, although a substantial proportion of NUR members would qualify for the higher increases, executive members representing workers who only *qualify* for the flat 8.8 per were not keen to accept.

On the question of bargaining machinery, in spite of acknowledging that the BR board had moved significantly by giving a *commitment* that pay and conditions would continue to be negotiated nationally, the executive was deeply suspicious *of its* position – in the light of BR's actions over the past week.

When making the commitment to retain national negotiating on pay and conditions, during last Friday's Acas talks, BR also said all existing national agreements would be honoured.

The union said yesterday, however, that this commitment was not in the document BR sent to the NUR for approval - hence the suspicion.

To some NUR watchers, the executive's decision was not *surprising.*

Mr Richard Hyman, professor of industrial relations at the University of Warwick, was one of the three authors of the Warwick Report, a year-long inquiry into the NUR commissioned by the union and based on an extensive survey of its members.

The report, which found widespread dissatisfaction among railway workers, noted that there was not sufficient work at head office to justify the continuous presence there of the 21 executive members. Apart from the few who sit on the key sub-committees, it was a full-time body without a full-time job to do, Mr Hyman said yesterday.

He said this was a recipe for friction and bad feeling, with the consequence – as he saw it – that some executive members try and look for opportunities to exercise control over the union's operation.

The executive has also had a long history of standing out and only gradually giving way on issues – and getting marginally more in the process. This may have provoked Mon*day night's split.*

From all corners, the internal opinion on Mr Knapp is one of respect. He has always been anxious not to steamroller the executive – while he will make his own view known very clearly, he will not impose it.

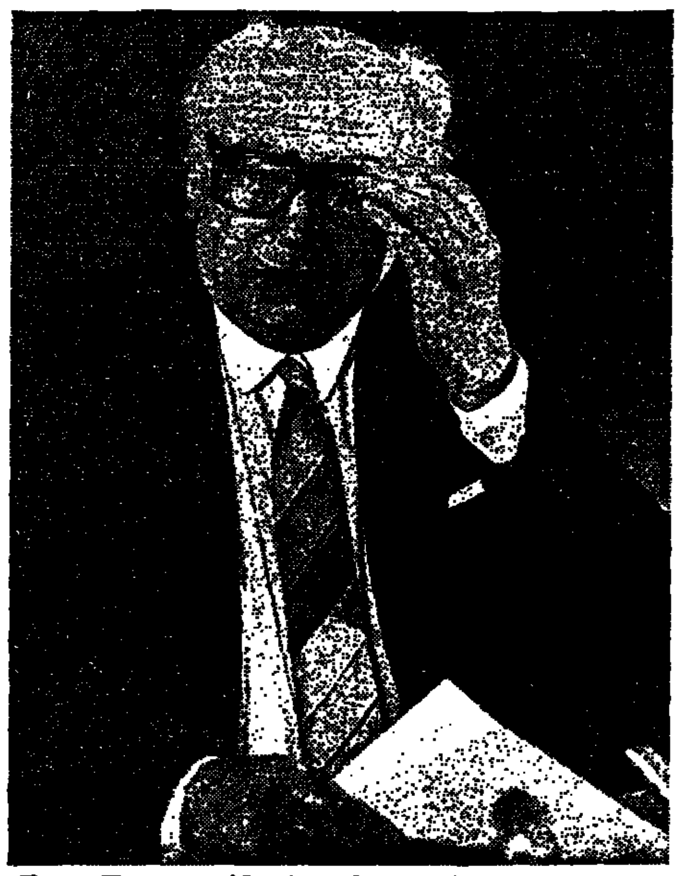
Above all, he wants to hold the union together.

He knows his executive inside out and clearly had a feel for what was to come when, leaving Acas at 5am on Saturday, he intimated that he did not think his executive would stomach the offer.

Had the board members but recognised it, Mr Knapp was giving them an early warning when he argued very hard then that they should improve the offer "even as a gesture."

Having fought and lost, however, there will be no further divisions.

The NUR's policy is to unite behind a policy once it is agreed, so there will be no opportunity to change Monday night's decision until both sides have resumed talks at Acas.



Jimmy Knapp; could not win backing for moderate stance

Talks called to settle council staff pay dispute

By Michael Smith, Labour Staff

LOCAL GOVERNMENT employers are likely to meet union leaders of 500,000 white collar workers tomorrow for first time in a fortnight and try to resolve a dispute which is causing severe disruption to council services.

The meeting would coincide with the final day of a three-day strike by members of Nalgo, the local government union, which has disrupted or closed social service offices, libraries, day care centres and rates offices.

The employers' side, which suggested the meeting to the union, said there was no prospect of it changing its pay offer at the talks, which would be informal.

Lacsab, the local government advisory body, said yesterday that the employers wanted to ensure they fully understood Nalgo's position. They would take stock of the position at a formal employers' meeting on Monday.

Nalgo leaders believe that pressure is growing on councils to increase their 7 per cent *final offer after the 8.8* per cent offer made by British Rail to its workers. They said yesterday that if there was no significant movement both on the level of increase and the "strings" attached to it, they *would ballot* on *further industrial* action.

However, the union is almost certain to hold back from carrying out earlier threats to ballot for an indefinite strike. Instead, it is likely to seek support for weekly one-day strikes across Britain and smaller localised stoppages.

The two sides continued to dispute each others' estimates of support for the strikes, which began two weeks ago.

Nalgo said about 470,000 members were on strike yesterday, an increase on last week's *total, but Lacsab* estimated that less than 50 per cent of the union's membership was out, and the figure was declining.

Nalgo is seeking 12 per cent or £1,200 a year, whichever is higher, and wants the employers to drop plans to *allow* councils more freedom to interpret national agreements.

Time for bluffing nears the end in the dockers' dispute

Jimmy Burns looks at the tougher attitude of the port employers who claim more dockers are returning to work

The time for bluffing in the docks dispute appears to be over.

Employers last night claimed that the trickle in the return to work in recent days was poised to turn into a flood, with support for the strike close to crumbling in Grimsby and Immingham, one of the largest port operations in the country.

They have also indicated that they could soon begin to sack dockers who continue to strike at ports where support has seemed most solid, namely Liverpool, London and Southampton.

TGWU transport union officials meanwhile appear to have had their spirits lifted by the pledge made by dockers' leaders in continental ports that they will refuse to handle diverted cargo.

They say they are prepared for a lengthy strike and have warned that no docker will return to work until the last of his dismissed colleagues is reinstated.

Whatever the final outcome of the dispute, the first ten days of the strike has already turned Britain's docks industry inside out, with 1,850 dockers of the 9,200 formerly registered under the Dock Labour Scheme taking redundancy payments.

As Mr Stuart Bradley, managing director of Associated British Ports, the biggest port employer, put it yesterday: "What is happening now in the port industry is setting out the basis for the next 50 to 60 years. We're talking about restructuring the industry."

ABP owns 19 of the 60 ports formerly registered under the Dock Labour Scheme – equivalent to 25 per cent of Britain's total port capacity. Since the dispute began, 1000 of its 1,720 registered workforce have taken voluntary severence under the Government's compensation scheme.

Mr Bradley says that the abolition of the Dock Labour Scheme which set manning levels by joint agreement with the union has forced ABP management to make a "microscopic examination" of the labour force that is needed in each port.

ASSOCIATED BRITISH PORTS

	Dockers employed pre-strike	Dockers accepting severance
*Hull	510	236
*Goole	135	72
*Grimsby	10	10
*Immingham	18	8
*General Workers Stevedores	68	47
*Southampton	307	148
Barry	65	21
Newport	175	84
Swansea	78	78
Ayr	14	14
*Fleetwood	44	4
Garston	58	58
King's Lynn	49	36
Lowestoft Container Terminal	12	12
Plymouth	14	11
TOTAL	1,720	1,009

* Ports on strike

In practice, this has meant that ABP has gone faster and further in trimming its workforce than British Coal during the miners' strike. Rather than wait for the strike to end before making substantial job cuts, as British Coal did, ABP appears to be wiping the slate clean from the outset, before starting afresh.

The effects of such a strategy has already been felt in the ABP port of Garston, on the River Mersey, where the entire former registered dock workforce of 58 took voluntary severence in the first week of the dispute.

Operations at the port have been resumed, with management redeploying its other employees to do docks work if necessary and customers providing their own labour for discharging and unloading cargo.

Grimsby and Immingham, one of the largest port operations owned by ABP, has the bulk of its workforce still officially on strike. Yet there, too, local management has managed to insure the continuing operation of the port.

At the port, 105 of the 720 dock workers have taken voluntary severence, while just over 400 were still on strike yesterday. With about one third of its original workforce back at work, the port yesterday had 16 ships being worked normally, although trade in steel products which normally averages about 20,000 tonnes per week is believed to be down to about 2,000 tonnes.

Even in Southampton, where support for the strike has seemed most solid, 13,000 tonnes of cement have been piped in and out of the port thanks to technology now available on self-discharging ships.

Nevertheless, the port's container operations which require *skilled dock* workers have been held up by the strike, forcing ABP to issue letters to the strikers that they will be sacked unless they return to work.

It could take management between two and three weeks to train a skilled replacement labour force and re-allocate its non-striking employees into an effective operational force.

If this proves difficult in the *short term, the company has* not ruled out taking advantage of its diversified asset structure to make more areas of its ports available for property development.

Of the 7,000 acres of land owned by ABP around the country, 2,500 have already been set aside for property development, and property now accounts for an equal share, along with ports, of the company's total profits.

Union officials see what ABP is doing as nothing more or less than what they said it would do – that is, riding roughshod over dockers' jobs and long established working arrangements the moment the Dock Labour Scheme was abolished. But since the dispute began *they have shown* themselves unable to dictate the scope and pace of change.

UK NEWS

Managers hope to win public sympathy in strike

Boost for rail chiefs as union remains divided

By Kevin Brown, Transport Correspondent

MORALE was rising among British Rail's top managers yesterday as the extent of disagreement among the executive of the National Union of Railwaymen became clear.

The mood at BR's Euston House headquarters changed overnight from deep gloom over what seemed like almost total victory for the unions to virtual disbelief at the NUR's tactics.

"The NUR have delivered themselves into our hands. Having played it very skilfully all the way through the dispute they have now made a serious mistake," said one senior manager.

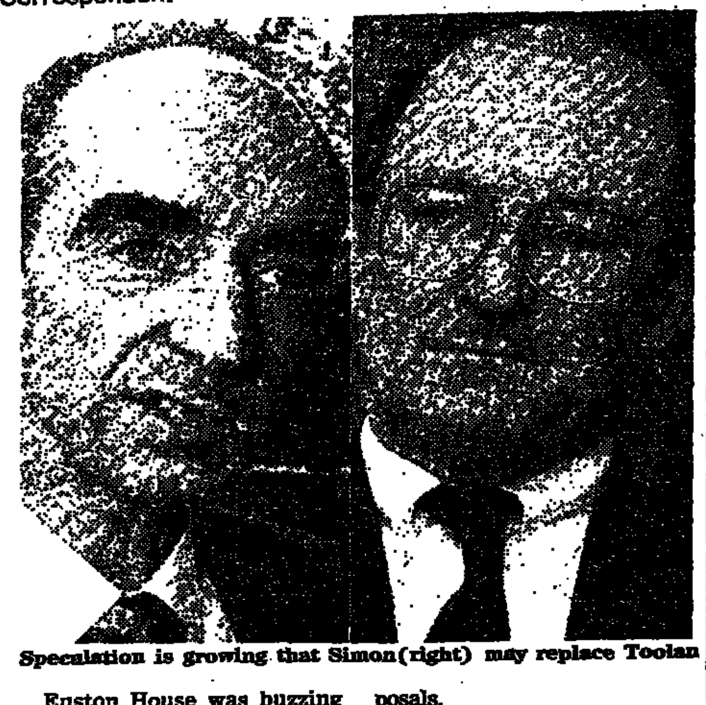
BR was considering its next move last night, but executives said they expected pressure on the union to increase rapidly as public sympathy drains away.

Officially, BR was saying there were no victors in the agreement reached earlier this week with Aslef, the train drivers' union, and the Transport Salaried Staffs Association, which represents white collar staff.

However, senior managers were admitting privately that the settlement represented a serious defeat on both pay and changes in the national bargaining machinery.

The NUR's decision to continue the dispute was seen as a public relations gift which would deflect much of the anger directed at senior managers by both passengers and government ministers.

"We made every mistake in the book, but this gives us an opportunity to save something from the wreckage," said one executive.


Speculation is growing that Simon (right) may replace Toolan

Euston House was buzzing with rumours about the future of Mr Trevor Toolan, BR's personnel manager, who drew up the pay and conditions proposals which led to the dispute.

Mr Toolan was closely identified with BR's hard line at the beginning of the dispute, and was eventually overruled by Sir Robert Reid, BR chairman.

Managers pointed out that Mr Toolan's strategy had been endorsed by BR's executive directors, including Sir Robert, and there was no suggestion that he might be sacked.

There was speculation, however, that Mr Toolan would find his position intolerable following the failure of his proposals.

Sir Robert was widely thought to be safe from dismissal given his success in bringing the corporation into profit over the last five years, and his intention to retire in March.

But the outcome of the dispute was thought to increase the likelihood that the next chairman would be recruited from outside BR.

The man being most frequently mentioned by senior managers is Mr David Simon, managing director of British Petroleum since 1986, who is thought to be top of the Government's shortlist for a tough outsider.

Baker eases path for foreign teachers

TEACHER shortages in London and the home counties were admitted by Mr Kenneth Baker, the Education Secretary, in the House of Commons last night as he made it easier for recruits from overseas to attain qualified status, writes Ivor Owen.

He announced that local education authorities would have discretion to grant qualified status to overseas teachers after they had worked satisfactorily for a single term, instead of a year, as at present.

Mr Baker envisaged that this change would be particularly attractive to teachers from Australia and New Zealand, who were already playing a significant role in schools in inner London boroughs.

He rejected Labour charges that the shortage of teachers had reached "crisis" proportions and stressed that the position varied from one part of the country to another.

But he acknowledged that the number of teachers resigning from posts with the Inner London Education Authority, some 1,439 this year compared with 1,908 last year, was still "unacceptably high."

Tough laws planned for restrictive practices

By David Churchill

TOUGH laws to tackle restrictive trade practices in UK industry and commerce, including substantial fines for both companies and directors, were announced yesterday by Lord Young, the Trade and Industry Secretary.

The Government's proposals, outlined in a policy document reforming Britain's 30-year-old restrictive trade practices legislation, will also for the first time bring the professions within the scope of restrictive practices law.

The proposed legislation will also include tougher powers of investigation for Sir Gordon Borrie, director general of the Office of Fair Trading, to uncover restrictive agreements.

These will include the powers of search and entry, using force if necessary, and are similar to those already available to competition officials from the European Commission.

But the Government has decided to give powers of enforcement, including the levying of fines, to a strengthened Monopolies and Mergers Commission.

It has decided to scrap the present system of controls of restrictive trade practices under which all agreements must be registered with the Registrar of Restrictive Trade practices in London.

The Government believes that this system concentrates on the form of agreement rather than its effects. Thus, it has decided to bring in a general prohibition of restrictive agreements, such as price-fixing cartels, collusive tendering, and market share arrangements.

Few exemptions will be made, the Government says, except for where the law conflicts with the EC and other international agreements. This means that the Channel Tunnel will not fall within the scope of the new law; although the professions will.

The legislation is unlikely to be introduced before next year and the Government also plans a period of transition to give companies time to adjust to the laws.

Details, Page 7

Government seeks to reassure Tories on tough policies

Philip Stephens reports on Mrs Thatcher's bid to calm mid-term nerves as she prepares for a Cabinet reshuffle designed to boost the party's image in the opinion polls

THE Government yesterday warned its supporters at Westminster they could not expect any early respite from high interest rates or tough controls of public spending as it maintains its fight to bring down inflation.

But Mrs Margaret Thatcher, the Prime Minister, and Mr Nigel Lawson, the Chancellor, sought to reassure Conservative MPs and peers that although they should not expect instant results, the Government remained confident that inflation would be brought firmly under control.

The attempt to calm mid-term nerves among their supporters came as the Prime Minister was said to be completing preparations for her planned Cabinet reshuffle, designed to boost the Government's flagging fortunes in the opinion polls.

With reshuffle speculation at fever pitch, Ministers were confidently predicting a formal announcement early next week.

They reported signs that even if, as expected, there are no changes in the three top positions, the reshuffle among other Cabinet members and in the Government's middle ranks might be more extensive than previously thought.

One insider suggested that as well as appointing a new Conservative Party chairman, Mrs Thatcher may announce cabinet-level changes in at least five other departments.

In an hour-long meeting with Conservative peers, the Prime Minister acknowledged the difficulties caused by the recent surge in inflation but delivered an essentially upbeat message on the economy and on Britain's role in the European Community.

She also promised that, with 90 per cent of its main election pledges now fulfilled, recent pressures caused by the Government's legislative programme would begin to ease.

Mrs Thatcher said afterwards that the mood of the meeting had been "excellent." Several peers agreed that although she had "mildly rebuked" them for a series of rebellions over the past year on such issues as water and electricity privatisation, the differences had not been allowed to mar the atmosphere.

There was some scepticism, however, that the legislative programme for the next session of Parliament will be significantly lighter. The Government has already announced that it is planning major bills on the reform of broadcasting, on the overhaul of the National Health Service, and on changes to the legal profession.

The Prime Minister's traditional "end-of-term" gathering with peers will be followed by a similar address to Conservative MPs tomorrow. It coincided yesterday with separate meetings between Mr Lawson and Sir Geoffrey Howe, the Foreign Secretary, and the finance and foreign affairs committees.

Mr Lawson told members of the finance committee that the fight against inflation would take longer than some of them might hope. He voiced his determination to maintain interest rates at their present levels for as long as necessary.

He warned that the present public spending round would be particularly tough and MPs would have to accept that the Government could allocate extra funds only to key priority areas.

He sought with only limited success, however, to answer the concerns of many Conservative MPs that the planned "safety net" arrangements for the poll tax would not cause severe problems in the party's key marginal constituencies.

Speculation that the impending reshuffle may be more substantial than expected has been fuelled by Lord Young's reported decision to leave the Cabinet, and the perception that the Government needs a much brighter face in certain important areas.

So although Sir Geoffrey, Mr Lawson, and Mr Douglas Hurd are expected to remain in place, cabinet-level changes are now expected at the departments of Trade and Industry, the Environment, Transport, Education, Northern Ireland, and possibly Employment.

LEGAL NOTICES

THE HIGH COURT
IN THE MATTER OF:

ANGLO IRISH BANK CORPORATION PLC

AND IN THE MATTER OF:

THE COMPANIES ACTS, 1963 - 1983

NOTICE OF PETITION

NOTICE is hereby given that a Petition presented to the High Court of Ireland on the 17the day of July, 1989 for confirming the cancellation of IR£4,702,983.00 of the balance standing to the credit of the share premium account and that such amount be transferred to a non distributable capital reserve against which any goodwill or any excess of the cost of any acquisition over its underlying net asset value may be written off in accordance with accepted accountancy practice and pursuant to the Special Resolution passed as item Number 5 at the Annual General Meeting held on the 20th of January, 1989 at The Shelbourne Hotel, Dublin 2 is directed to be heard before The High Court of Ireland on the 27th day of July 1989 at 10.30 a.m. in the forenoon at the Four Courts, Inns Quay, Dublin 7.

Dated the 17th day of July 1989

WILLIAM FRY
Solicitors,
Fitzwilton House,
Wilton Place,
Dublin 2.

READING MARINE SERVICES LIMITED

We, JOHN MARTIN IREDALE and NIGEL JOHN VOOGHT of Cork Gully, 9 Greyfriars Road, Reading, Berkshire RG1 1JG were appointed joint administrative receivers of READING MARINE SERVICES LIMITED
Registered Number 847526
by National Westminster Bank plc on 7 July 1989

J M Iredale
Joint Administrative Receiver

Dated 13 July 1989

No. 003830 of 1989
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION

IN THE MATTER OF HANIMEX (UK) HOLDINGS LIMITED
AND
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition presented to Her Majesty's High Court of Justice on 30 June 1989 for the confirmation of the reduction of the share capital of the above-named Company from £1,146,020 and Aus $2,400,000 to Aus $2,400,000 is directed to be heard before the Honourable Mr Justice PETER GIBSON at the Royal Courts of Justice, Strand, London, WC2A 2LL on Monday the 24th day of July 1989

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of hearing in person or by Counsel for the purpose

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED this 12th day of June 1989.

Clarks, Solicitors
Great Western House,
Station Road, READING RG1 1SX
Solicitors for the above-named Company

F W SKINNER & CO (PAPERS) LIMITED

NOTICE IS HEREBY GIVEN, pursuant to Section 98 of the Insolvency Act 1986, that a Meeting of the Creditors of the above-named Company will be held at 1 Wardrobe Place, Carter Lane, London EC4V 5AJ on the 27 May of July 1989, at 12 noon for the purposes mentioned in Sections 100 and 101 of the said Act, that is,

1. The nomination of a Liquidator
2. The appointment of a Liquidation Committee

Proxy forms to be used for the purpose of the above Meeting must be lodged, accompanied by statements of claim, at the Registered Office of the Company, situated at Booth, White & Co., 1 Wardrobe Place, Carter Lane, St. Pauls, London EC3V 5AJ not later than 4 p.m. on the 26th day of July 1989.

Notice is also hereby given, pursuant to Section 98(2)(a) Insolvency Act 1986, that P.W.J. Hartigan of Booth, White & Co., 1 Wardrobe Place, Carter Lane, St. Pauls, London, EC4V 5AJ is qualified to act as an insolvency practitioner in relation to the above Company and will furnish Creditors free of charge with such information concerning the above Company's affairs as they may reasonably require.

Dated this 11th day of July 1989

By order of the Board
H W Miller
Director

TECHNOLOGY

Chipping away at a mountain of rubbish

Peter Marsh explains the difficulties that make plastics recycling such an uphill struggle

Rubbish is perhaps the most visible brand of pollution and plastic packaging is regarded as one of the worst offenders because some forms are virtually indestructible.

This has left the makers of plastic packaging under the green searchlight when questions are asked about recycling. In response, companies in the $150bn-a-year plastics sector have been seeking ways to ensure that their materials do not cause environmental problems after use.

Yet, whatever technology is available to assist them, the solution is often only as good as the strategy for collecting and separating reusable plastic from the other rubbish. This is why some of the initiatives by big plastics producers in the US, including Dow Chemical, Du Pont, Amoco and Mobil, are being carried out with waste disposal companies.

In Europe, the response has been slower, although several large companies, including Hoechst of West Germany, DSM of The Netherlands and Royal Dutch/Shell, the Anglo-Dutch group, are all considering an increase in their plastics reprocessing operations.

The driving force behind these moves is the threat that some of the newer and more promising markets for plastics, particularly in packaging, could be put at risk by new laws circumscribing their use on environmental grounds.

Simon de Bree, a board member at DSM, says most plastics companies will have to react to feelings of antagonism towards the over-use of plastic packaging. Another observer says: "If the industry can take the initiative by demonstrating its commitment to recycling then some of the pressure will be lifted."

There is also a strong economic argument. If plastics waste can be recycled efficiently, it will create a new source of raw material. "We are not doing this (recycling) out of any altruistic purposes," says Jerry Ehrens, a Du Pont marketing manager. "We are confident we can make money out of it."

Packaging, for anything from snack foods to industrial equipment, is at the sharp end of the debate about recycling. It accounts for about a third of the 80m tonnes of plastics produced world-wide each year.

Most packages are in place for a short time and then discarded. With the use of packaging materials rising at 5 to 10 per cent a year in many countries, that leads to a growing mountain of plastic waste. And while by weight plastics account for only 4 per cent (12m tonnes) of western Europe's annual domestic garbage, in volume terms the proportion is around 20 per cent. Two thirds of this waste ends up in landfill sites, which are rapidly becoming scarcer.

The issue is aggravated by the fact that most plastics take an extremely long time to degrade – as is testified by the pervasiveness of the litter. But more serious in the long term is the way that buried plastic waste can act as an impermeable barrier, both to water flows and to the gases – such as inflammable methane – which build up as organic material breaks down.

Some recycling of plastics does take place, mainly in the industrial field. In the UK, 5 per cent of the 3m tonnes of plastics used each year is reprocessed, according to the British Plastics Federation. Most of this activity involves collecting plastic scrap and used sheeting and selling it to the makers of packaging.

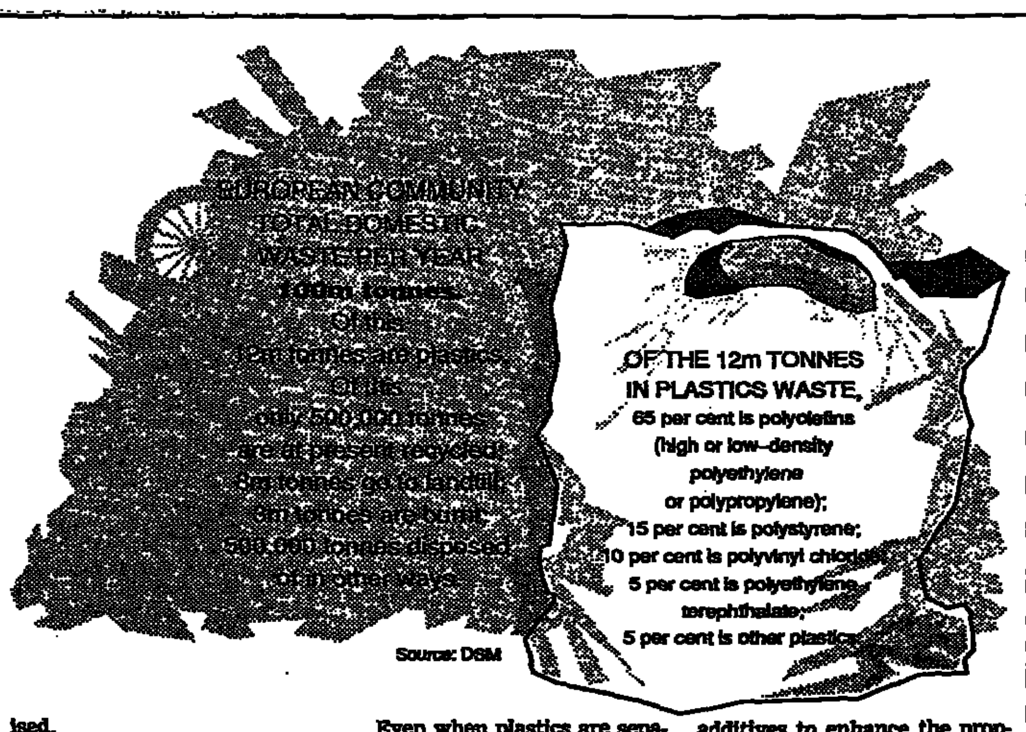
In the UK, some 60 companies take significant volumes of plastic from this source and use it in new packaging – from bin liners to food trays. These companies include Scott & Robertson and Polymer Technologies International, both of which are investing heavily in the washing and reheating plants needed for such operations.

But the recycling of domestic plastic waste is minimal. In Europe 4 per cent of such refuse is reprocessed, while the US figure is only 1 per cent of the 10m tonnes of plastic refuse discarded each year.

One of the main barriers to recycling plastic packages is that they are often not as simple as they look. There are five big-selling plastics, accounting for three-quarters of total world production: low and high-density polyethylene, polystyrene, polyvinyl chloride (PVC) and polypropylene. Increasingly these plastics are being alloyed or layered to improve flexibility, appearance and preservative properties. So even a humble food wrapper may consist of several types of material.

Recycling such products is difficult because of the need to "unscramble" the different plastics from the mix. So most recycling initiatives concentrate on specific items known to contain single plastics, for example drinks bottles made from polyethylene terephthalate (PET), a hard plastic chemically related to polyester fibre, washing-up bottles that consist of high-density polyethylene and industrial packaging incorporating low-density polyethylene film.

The success of recycling initiatives often depends on efficient collection. The most practical way to achieve this is to educate householders to separate plastic rubbish from other kinds of waste. This is already done on a large scale in parts of West Germany and the US. In Britain, few local authorities organise rubbish collection on this basis, although Sheffield is pioneering a project that encourages householders to sort out rubbish so that the potential for recycling is optimised.



In the US, plastics suppliers are joining forces with waste disposal companies in several recycling initiatives. The waste companies provide large quantities of plastic from the domestic garbage stream. Du Pont has teamed up in one such operation with Waste Management, a large refuse management group.

Dow and WTE are conducting an experiment in collecting waste from 1,300 households in Akron, Ohio, to see how much of it can be recycled. And with several other plastics producers, including Huntsman, Mobil, Arco and Amoco, Dow is planning to invest $14m over the next few years in setting up collection points and recycling plants for polystyrene packaging.

Even when plastics are separated from other waste, most recycling operations still need some form of screening to ensure that, say, PVC and PET are not mixed up. This can be done by froth-flotation, which takes account of discrepancies in the density of different plastics. The process resembles the separation systems used for ore and rock in mining. A more sophisticated screening technique, based on chemical analysis, employs a spectrometer to detect differences in the atomic structure of plastics.

There may be problems in ensuring that the plastic obtained is of a high enough quality, especially if the final object has to be strong enough to bear any sort of load. Plastics companies are tackling this by looking at different additives to enhance the properties of the recycled material.

Although many observers believe that the technology is not up to sorting plastics from ordinary domestic waste, some groups are willing to try. They are motivated by the thought that a foolproof and reasonably cheap way of separating plastics from other rubbish would yield useful volumes of recyclable material from existing waste collection operations.

In the UK, the Department of Trade and Industry's Warren Spring Laboratory, in Stevenage, is working with the British Plastics Federation and the publicly owned waste disposal authority in Manchester on sorting techniques based on a mixture of chemical analysis and mechanical systems, such as froth flotation.

Direct line to data from parliament

A DIAL-UP index of UK parliamentary proceedings, including select committee reports and European Commission publications, is now available to the public.

Polis (the parliamentary on-line information system) can be reached by direct dialling or at local call rates via British Telecom's Packet Switch System.

The new public service is an extension of a system, run by Meridian Systems Management (MSM), which is already available at the Houses of Parliament. About 40 terminals there are connected to the system via two British Telecom Kilostream lines. MSM also staffs a support line at its office in Bromley, Kent.

There are three databases, one for each of the last three terms of government. Between them they contain half a million records occupying four gigabytes of on-line storage. The latest database is growing at a rate of 100,000 records a year. Because Polis is an index rather than a transcript of proceedings, response times are fast; 90 per cent of inquiries are satisfied within 5 seconds.

The system is updated after every parliamentary sitting. Index entries typically contain the Hansard date, volume and column reference, the names of the Government departments and MPs concerned, an index key assigned by the Commons library and a brief description.

The user can search the index either by entering a short generic key to pick up all entries for a given subject, or by creating a composite key to select references to a specific MP between certain dates.

Data are retrieved in reverse order to give the most recent record first. The databases have a built-in thesaurus of synonyms: a search relating to the community charge, for example, will automatically include any references to the poll tax.

At present, many companies rely on personal contacts for information, but Polis should offer a more reliable and complete source of business-related legislation.

Andrew Cowie

Weather forecasting takes on a life-saving role

New weather prediction technologies are expected to provide a life-saving flood warning system for poor countries, such as Bangladesh, which cannot afford to build giant sea defences.

A computer modelling scheme, intended to protect large populations in low-lying regions from rising sea levels, has been pioneered by Britain's Natural Environment Research Council (NERC). Very long range weather prediction should also benefit navigation, commodity trading, agriculture and construction.

According to a World Bank discussion paper: "Advance information on seasonal climate fluctuations will make planning for the distribution of fertiliser for food relief more efficient. Construction projects could be timed to avoid flooding."

Computer modelling could have saved perhaps 10,000 lives last year when the worst cyclone in the history of Bangladesh swept across the low-lying southern part of the country. One of the world's poorest and most densely populated nations, it had been hit just three months earlier by flooding caused by rainfall. Climatic changes due to the greenhouse effect could increase the frequency of such disasters.

Traditionally flood problems have been dealt with by massive, expensive dams. Improved weather forecasting, flood risk analysis and mapping offer an alternative because the early warning would enable such measures as evacuation.

Roger Flather, of the NERC's Proudman Oceanographic Laboratory, explains: "Coastal floods produced by tropical cyclones in the Bay of Bengal constitute one of the greatest natural hazards. The only practical means of saving life is to develop computer models capable of simulating and predicting the water movements and associated sea level changes in the region, backed by effective local warnings."

Four years ago, after coastal floods had killed more than 11,000 people in the Bay of Bengal area, Flather formulated proposals for collecting data for a model. An NERC research ship would work with the Bangladesh Inland Water Transport Authority and the Canadian Department of Fisheries and Oceans.

His proposals may be reconsidered shortly under a global disaster management programme and a study of sea levels, which have been launched by the London-based Commonwealth Secretariat. These programmes coincide with preparations for the International Decade for Natural Disaster Reduction in the 1990s.

"Our aim has been to encourage the collection of all information relating to surge events," says Flather. Meteorological information derived from weather radar systems and satellite images would be used with the surge models to give accurate flood predictions."

Accurate, global, long-range weather prediction has been made possible by computer modelling of El Niño – a change in the atmospheric circulation pattern which occurs at irregular intervals of up to eight years. The present Niño is blamed for floods both in Bangladesh and the Sudan. The same phenomenon is responsible for such disasters as the recurring monsoon failures in South-East Asia and floods in Central and South America.

The 1982-83 Niño wiped out crops and ravaged the western seaboard of the Americas by persistent storms, destroying much of the anchovy harvest. In Australia, the associated southern oscillation led to severe drought, furious bush fires and dust storms which carried away 200,000 tonnes of topsoil.

NERC computer scientists and colleagues in the affected Commonwealth countries may soon be able to predict El Niños. As a result, says the World Bank, specialists can be expected "to provide at least a few months' advance notice of increased risk of climate-related disasters, such as a poor south-west monsoon in India, drought in East Africa, Indonesia or the Brazilian Amazon, or serious flooding in Peru, Ecuador or Bangladesh."

Thomas Land

TECHNOLOGY MARKET

Hindustan Lever

Flexing its competitive muscles

Having been constrained for many years by the country's trading restrictions, one of India's largest multinationals now plans to take full advantage of increasing deregulation. David Housego reports

When Ashok Ganguly takes a look at the prospects for foreign multinationals in India he likes what he sees.

Ganguly is the chairman of Hindustan Lever (HL), the Unilever subsidiary based in Bombay, which is the country's largest foreign multinational with interests in soaps, detergents, chemicals, toilet goods and agricultural products. Add in Unilever's other subsidiaries in India – including Lipton, Brooke Bond and Ponds, with which HL has various management, research and marketing tie-ups, and you have total sales of more than Rs20bn (£770m). In terms of turnover, that puts Unilever on a footing with India's largest domestic groups.

In the past, HL felt that its growth was impeded by the Indian Government's licensing restrictions on the expansion of all large companies, and by the need to trim its strategy to comply with the FERA rules (Foreign Exchange Regulation Act) on Indian subsidiaries of foreign companies.

But with deregulation increasing, the purchasing power of the middle class (defined as the top 250m people) growing at 2 to 7 per cent a year in real terms, and a rising demand for quality consumer products, "the opportunities are now manifold," says Keki Dadiseth, the finance director.

HL is in a good position to take advantage of them. Over 65 per cent of its Rs10.7bn per cent turnover is in soaps and detergents. According to Shonu Sen, vice president for marketing, demand for these products is expanding at between 6 and 8 per cent a year, or three or four times faster than the growth in population. Demand for personal products (toothpaste, shampoos, creams) and for speciality chemicals is growing faster still.

As one of the giants on the Indian corporate landscape, HL has the marketing and financial muscle to increase its market share at the expense of its competitors. A more deregulated environment is now offering the possibility of expansion through acquisition. "We intend to be fairly aggressive in this area," says Dadiseth.

HL has other strengths as well. It can take its pick of some of the best managerial talent in the country because it offers not only a broad career structure in India – but also access to Unilever's international operations. Some 30 Indians hold senior posts abroad. "We are like a university," says Irfan Khan, public relations manager. "Those who have not been to business school can get in anywhere after being with us."

It has an unrivalled distribution network, with more than 3,000 stockists enabling it to penetrate remote corners of the country with fertilisers or detergent powder. "You can find our goods in any market or village," says Dadiseth.

It has the largest research and development laboratory of any private sector company in India. It has developed a cream, Fair and Lovely, that turns dark skins pale and which has had tremendous popularity in India and Africa. Spending on R&D has uncovered ways of substituting unconventional oils found in India for widely used soap ingredients.

With profits before tax averaging 8 to 9 per cent of turnover in recent years and a debt to equity ratio of 1:3, it has a financial solidity that gives it a strong borrowing capability for any future expansion. "We are like the Bank of England," claims Dadiseth.

Says a senior executive: "We have done very well in a protected environment. We will do much better in a competitive one." Over the past five years HL's return on equity has grown from 16.4 per cent to 23.7 per cent.

A low profile, conservative group, HL has long shunned publicity and safeguarded its position in India by keeping its sights firmly fixed on the long-term horizon. It faced a difficult test in the early 1970s when the Indian Government brought in the FERA laws requiring foreign companies to bring their shareholding in Indian subsidiaries down, normally to 40 per cent. HL was 85 per cent owned by Unilever.

While companies like IBM left India rather than comply and others fell in with the 40 per cent requirement, HL fought for 10 years to maintain a Unilever stake of 51 per cent.

The arguments of its Indian management – which events have since justified – were that HL would gain in terms of access to technology, career openings for managers and the international experience that comes from being part of a global group, with Unilever holding a 51 per cent stake.

At the time the price for Unilever retaining control seemed heavy. HL had to agree that 60 per cent of its business would be in what was called the "core" or priority sector and 10 per cent in exports.

Ganguly always maintained that the necessary restructuring suited HL's strategy. He sold the edible fats, dairy and animal feeds activities to Lipton, another Unilever subsidiary, thus transforming what was a one product and too narrowly based tea concern into a broadly based food processing company. HL also expanded laterally into chemicals and agricultural products (fertilisers, plant feeds and hybrid seeds), enabling HL to gain a foothold in rural India. Within 18 months it had regained the 25 per cent of turnover lost in the sale to Lipton.

More difficult was the challenge it had to face in the early 1980s when a new low-cost producer began making deep inroads into the detergent market. HL was overwhelmingly the market leader with a high priced, quality product in Surf. The success of Nirma, producing out of backyard workshops, was to develop a low cost detergent to replace the washing soaps traditionally used in India – and at a price far lower not only than Surf but traditional laundry soap also.

Nirma's lightning expansion led to an explosion in demand for detergents. Surf's sales grew more rapidly – rising from an annual 5 per cent growth to 15 per cent on the back of this. But HL had no brand with which to compete in the dramatically expanding lower end of the market.

Ganguly argues that HL's hands were tied because it was unable to obtain the licences to build additional capacity and thus it was best to concentrate on the upper end of the market where value-added was greatest.

Ingenuity and deregulation eventually came to HL's assistance. New detergent makers which sprang into existence on the back of Nirma's success went bankrupt because they lacked the distribution back-up. HL began taking over these units on a leasing basis – thus adding capacity for detergents of similar quality to Surf in both powder and bar form at no cost, and earning good marks with the authorities for preserving jobs.

HL has leased three detergent and soap plants which it is now running at full capacity and taken a 51 per cent stake in one, Stepan Chemicals in the Punjab, purchased at an almost nominal price. Summing up HL's leasing experience, Dadiseth says: "If you can milk a cow without buying it, you should not buy it."

Deregulation since 1985 has allowed the group to build additional capacity as well. By 1986, HL felt ready to take on Nirma in the lower segment of the detergent market. It developed a new product, Wheel, from local raw materials, claiming it was better and gentler than Nirma. Wheel was launched with a massive advertising campaign and at the same price as Nirma in 1987/88.

Sales are now running at the level of 100,000 tonnes a year according to Sen and will rise to 250,000 next year. By then, HL hopes to have regained a third of the market in detergent powders and bars in volume terms (up from 20 per cent at the moment), and "will be market leaders in value" – with a 45 per cent share compared with 33 per cent.

The expansion of capacity has also helped HL towards a solution of another thorny problem. Wages had been increasing at its Bombay plant, one of the largest in the group, at 15 per cent a year. Notwithstanding Rs300m investment in modernising the factory, its productivity record was the worst of all HL's plants.

Ganguly long felt that a conflict was inevitable at Bombay, but that the mangement was in a weak position while there was a substantial shortage of capacity. The conflict erupted last year when strikes began in pursuit of wage demands that the company claimed would have almost tripled wage costs. HL declared a lock-out. A year ago, on June 23, the lock-out ended and workers returned.

With the prospect of increased de-licensing and changes in the FERA regulations, HL now feels that government interference will less and less stand in the way of what it wants to do. Dadiseth says: "If somebody tells me today that he cannot do something because of the law, I interpret it more as a grudge than a reality." He argues that if you have a good case and present it well, the government will allow you to go ahead.

In this more competitive environment, HL wants to expand through acquisitions. As part of an overall Unilever strategy it is seeking to broaden the food interests of Lipton and Brooke Bond. In other divisions it wants as well to pursue its policy of leasing bankrupt units.

The launch of Wheel is a sign that it intends to spend more heavily on marketing. Marketing expenditure increased by 50 per cent in two years from Rs120m to Rs180m. HL is aiming over the next two to three years to quadruple its share of the toothpaste market from 5 to 20 per cent.

The group is spending more heavily on capital investment; it has risen from an average of Rs300m a year over the past five years to Rs500m this year. It has some big chemical projects in the pipeline including a Rs2bn linear alkyl benzene plant to provide feedstock to its detergent business.

It is expanding its interests in biotechnology where it sees potentially large markets in the accelerated development of hybrid seeds and in organic fertilisers. It believes that its export business – now accounting for 10 per cent of turnover – could expand substantially. R. Gopalakrishnan, export manager, forecasts a 10 to 15 per cent increase in export volume over the next few years, but adds that "we are at the beginning of a ride which could be breathtaking." This is based on HL gaining more of the international subcontracting business in products like garments – long part of its export operations – that have traditionally gone to East Asia.

Profit growth last year was depressed by drought, higher raw material prices and the increase in marketing expenditure. Ganguly has already announced a substantial improvement in profits in the first months of this year. The company sees this as a harbinger of the good times ahead.

A S Ganguly

S Sen

K B Dadiseth

R Gopalakrishnan

Unilever companies in India – 1988 (Rs 00,000s)

	Sales	Profit before tax
Hindustan Lever (including Indexport)	107,865	8,383
Brooke Bond India*	38,757	4,014
Lipton India*	39,189	1,403
Pond's India*	8,709	488
Tea Estates India*	2,545	570
Doom Dooma India	1,762	444
Quest International India	1,431	146
TOTAL	200,258	15,448

*Annualised figures. Source: Hindustan Lever

Hindustan Lever: breakdown of sales 1988(%)

Soaps	43.6
Detergents	25.1
Personal products	6.6
Chemicals	13.2
Exports	12.3
Plant nutrients, animal feed etc	5.8
Total	100.0

Source: Annual report

Management abstracts

Skill shortages and adult industrial training. *A. Roberts and M. Cooke in Industrial and Commercial Training (UK), Sept/Oct 88 (6 pages).*

Discusses, quantifies and deplores skill shortages which restrict the application of new technology, and explains the contribution now made to open learning facilities, viz. the Open Tech, the Open College, and the Open University. The application of the first of these at Austin Rover is discussed at some length. Provides an extensive list of references (47 of them, to be precise).

New competition in the service economy. *C. Grönroos in International Journal of Operations and Production Management (UK), Vol 8 No. 3 88 (11 pages).*

Traces the increasing importance of the service sector and argues that manufacturing will increasingly need to rely on service functions to compete, because anyone can make the goods but competitive advantage will depend on the like of technical service and customer training. Believes that the key to success in modern business lies in improved service know-how, and provides five "rules" of service. These cover employee commitment to customer requirements and to marketing the firm's products at every point of customer contact, demand analysis, quality control and organisational support. Emphasises the approach is valid for both service and manufacturing sectors.

Conquering evaluation fear. *M. Cayer and others in Personnel Administrator (US), June 88 (7 pages).*

Believes that appraisal does not contribute as much as it might do to improving performance, because of managers' emotions (nobody likes to convey bad news) and lack of skill/confidence; advocates rational effectivenesss training (RET) as a means of overcoming these emotional blocks. According to RET, the troublesome emotions and poor supervisory behaviour result from baseless/exaggerated beliefs and thoughts; gives an example of RET techniques and lists benefits of RET training – identification of uncomfortable appraisal situations, recognition of ineffective actions and avoidance of procrastination.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

صكذا من الاهل

JOBS

How to recognise an overstressed worker

By Michael Dixon

HAVE you patted yourself on the back for a bit of work you've done recently? If you have, all well and good. But if not, be warned: you may be headed for trouble.

One of the first things people do when they become overstressed is to stop commending themselves on their achievements, says Dr Victor Meyer, a behavioural psychotherapist specialising in treating the victims of such afflictions.

His talk on stress at a London seminar held by the Psycorp consultancy the other day included a list of four more telltale tendencies. One is comparing yourself disadvantageously with other people. A second is fearing criticism.

"A less obvious one is fear of praise. When severely anxious people are praised for an achievement, they take it as meaning they're expected to achieve still more," Dr Meyer explained.

"Fourthly, they make self-disparaging interpretations of events. Even if something happens which shows that someone else approves of them, they often decide the other person must be stupid and doesn't count."

He added that there are also typical ways in which the overstressed react to their plight. The half dozen most common "ploys" are:

1 Withdrawing socially, making themselves less and less accessible to other folk.
2 Obsessively checking things again and again.
3 Fishing for compliments.
4 Doing something to make a good first impression, then running away from the situation.
5 Being flippant, treating everything as a joke.
6 Being aggressive, not just purposefully as a means of getting something they want, but apparently for aggression's own sake.

The trouble with such lists of symptoms is that they are apt to set perfectly healthy people thinking they have them. So Dr Meyer offered a further diagnostic aid. "Even if you suspect you have the whole darned lot, the acid test is whether it really worries you. If so, you may need help. Otherwise, forget it."

He added that, provided sufferers recognise they have a problem before it becomes severe, they can often cope with it *themselves by a* method called "flooding". At the end of his war service as a fighter pilot, for example, combat flying became so stressful to him that he developed a stomach ulcer.

"On my first peacetime flight — to America in the 50s — the old symptoms started to come back. By then I was far enough on in my studies to know about flooding. So I closed my eyes and made myself imagine, slowly and in detail, the worst that could happen. When I looked up again, a lovely woman was smiling at me and asking what I'd like to drink. I immediately felt complete relief."

But even if the problem has reached a stage where professional help is needed, the treatment can have its pleasant aspects. For instance, not long ago Dr Meyer was called in by a senior executive whose over-stressed state had developed into a terror of using lifts, *including the one to his* office on the top floor of a high building.

"When I found he was a gourmet, it wasn't hard to prescribe the treatment," the doctor said. "We called in some first-class caterers in the evening and made him a superb dinner: everything he wanted just as he wanted it. *The price of the meal to him* was that he had to eat it going up and down in his office's lift — which he did.

"We then repeated the process on later evenings, each time arranging for the meal to be just a little less enticing than on the previous occasion. But well before it got down to a company canteen standard, his phobia of lifts had disappeared."

First in field

HEADHUNTER Malcolm Campbell seeks someone who — as far as he and the Jobs column are aware at any rate — will be the first managing director to be employed by a British university institution.

The opening, at London University's Imperial College of Science and Technology, has arisen from two main circumstances. One is the Government's demand that universities cover a growing share of their costs by their own money-making efforts. The other is the retirement of John Smith from the post of "secretary and clerk to the governors", which carries responsibility for all administrative as distinct from academic matters.

As the need to earn cash has changed Mr Smith's job greatly, it is being re-named "managing director". But lest *that be considered too* shameless a concession to commercialism, the newcomer will still report to the "rector" Professor Eric Ash.

The first task of the job will be to take a hard look at Imperial's management systems, and still more importantly at its assets, with the aim of making the best of the college's income-earning opportunities.

The assets include not only 16 acres of Greater London but some 200 acres near Ascot. So experience of property development is seen as essential. But since strong financial and organising skills are also needed, the headhunter says the most suitable candidates would be senior general managers whose responsibilities have included property holdings.

In view of the probable salary — although no figure is quoted, I doubt that it can be more than about £50,000 — the college's best hope may lie with top business executives who have taken early retirement. The sole perk is a spacious flat in South Kensington.

Inquiries to Mr Campbell at Clive and Stokes International, 14 Bolton St, London W1Y 8JL; tel 01-408 0370, fax 01-493 1322.

Stockbrokers

AN UNSPECIFIED number of qualified stockbrokers specialising in private-client business are wanted by recruiter Keith Phillips of Deven Anderson and Associates to work for an expanding concern in the Midlands. Since he may not name his client, he promises to honour any applicant's request not to be identified to the employer at this stage.

There are openings for team-leaders downwards, and *salaries range between* £30,000 and £70,000 depending on capability plus bonus on results. Perks include a car.

Inquiries to 35 Livery St, Birmingham B3 2BP; tel 021-233 3320, fax 021-233 1031.

Recruiters

JOHN GRAHAM, joint chief of Cambridge Recruitment Consultants, is seeking four or five additional consultants for his company.

Candidates should be *demonstrably skilled at* finding and selecting high-grade staff. They could come from company personnel departments, or from search or advertising-based selection consultancies. Familiarity with the use of psychometric tests would be an advantage. So would experience of management development.

Salary indicator £25,000-£30,000 with incentive bonus. Car among other benefits.

Inquiries to 11 King's Parade, Cambridge CB2 1SJ; tel 0223 311316, fax 0223 316152.

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£ Exceptional Package — City

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◇ Fast growing asset and corporate finance advisers with outstanding, international reputation.
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THE POSITION
◇ Board level appointment.
◇ Total responsibility for new business area.
◇ Planning and implementing the application of the company's finance structuring skills to Project Finance.

QUALIFICATIONS
◇ Exceptional project finance talent and experience gained in a quality banking group or corporate sector.
◇ Entrepreneurial flair, drive and management skills.
◇ Intellectual agility and preferably relevant professional qualifications.

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◇ A very substantial package, tailored to attract the best in the field.
◇ Significant profit and/or equity participation.

Please reply in writing, enclosing full cv,
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54 Jermyn Street, London SW1Y 6LX.

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◇ Ensure total compliance of company activities with the Financial Services Act.
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◇ Provide legal advice to executives and assist on a wide range of corporate matters.

QUALIFICATIONS
◇ Qualified lawyer aged 25-32 with extensive knowledge of FSA, TSA and IMRO requirements.
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◇ Ambitious, determined individual who combines strong technical skills with commercial awareness.

THE REWARDS
◇ Salary and a very comprehensive benefits package including car, bonus and stock options.

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SALES EXECUTIVE – CITY

Financial i, the leading producer of information and training videos designed specifically for the international financial community, wishes to expand its sales team with the appointment of another Sales Executive to take responsibility for selling its products to major banks and financial institutions in the City.

The successful candidate will have a thorough knowledge of the City, and will possess keen selling skills. Preferred age range is 30 – 50.

Please reply to Colin G. Sullivan, Head of Sales.

Financial i Ltd
250 King's Road
London SW3 5UE
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Fax (01) 351 6950

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INVESTMENT AND PORTFOLIO MANAGERS

An international asset management group wishing to expand is looking for small teams of investment or portfolio managers, with existing clientele, who would like to gain independence and accumulate capital by joining their London office.

Box A1284, Financial Times,
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Property trading and investment
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package to £50,000 + share option + benefits

THIS RAPIDLY EXPANDING, highly profitable and recently-quoted USM company's main business activities include property trading and refurbishment, and property investment.
Its ambitious growth plans, particularly over the next 5 years, mean that it now requires a high-calibre Acquisitions Director to be responsible for all future acquisitions – from initial inquiry right through the negotiation process – of other businesses and/or property companies and their portfolios. Success in this key position will lead to a Board appointment in a short period.

This challenging yet rewarding role calls for someone aged 30-35 with, ideally, an MBA (or equivalent) qualification, and considerable acquisitions experience *ideally gained in either* a merchant banking or property-related environment. Good negotiation skills, drive, and enthusiasm are important attributes.

Please send cv, in confidence, indicating present salary, to Susan Port, Ref: 3574/SP/FT, PA Consulting Group, Hyde Park House, 60a Knightsbridge, London SW1X 7LE.

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£40,000+

Due to unprecedented demand we invite enquiries from experienced intraday traders with a firm commitment to career progression.

Our clients comprise major and revered trading names who wish to complement existing highly active and profitable dealing teams by the appointment of traders with first class track records.

Ideally you will have a minimum of 4 years actively trading a major currency or the crosses; this experience having been gained with quality dealing teams.

Due to the calibre of our clients, prospects and security may be considered potentially high.

Initial applications to Nigel Hulbert.

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BOWL COURT, 231 SHOREDITCH HIGH STREET, LONDON E1 6PJ.
TEL: 01-247 7632. FAX: 01-247 1411

AIRCRAFT FINANCE

Our client a major international bank currently seek a London marketing orientated team leader, to mastermind the bank's on and off balance sheet financings. Experience must include the capability to source, package and sell down, high value UK and international aircraft financings both as a principle and as an arranger. Applicants should be graduates aged 30-37 years. **Salary v. neg. £50,000 + benefits.**

MARKETING MANAGER SALES AID/MSP

Two major names in the field of hi-tech sales aid/operating leases seek applicants, probably graduates aged 28-35 years skilled in dealer/supplier major account relationships, strategy, product, development and in credit appraisal. **Salary neg. £40-£50,000 + benefits.**

CHIEF ACCOUNTANT

A qualified accountant or ACIB with several years' in depth banking accounting, covering all statutory and management accounts and reporting, overseeing reconciliations, computer and responsible for the smooth running of a small accounts department in an international bank. Reporting to Financial Controller.

ADRs/SALES MARKETING

An established international bank seeks a high calibre graduate banker aged 27-35 with proven success to date in marketing/sales role. Ideally would be ADR experienced but serious consideration will be given to high profile candidates with marketing experience gained from within investments, bonds or corporate finance sectors. **Salary v. neg. £25-£40,000.**

SENIOR DEALER SPOT EXCHANGE

Really excellent dealing and management skills are desirable to succeed in a demanding and challenging position in a new dealing room – reporting to Dealing Room Manager. **Salary £40-£60,000.**

SENIOR FOREIGN EXCHANGE FORWARDS SPECIALIST

An experienced forwards dealer is being sought to join a new and expanding European bank dealing team. Good general background essential. **Salary £30,000.**

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FINANCIAL CONTROLLER - INSURANCE
READING

The Insurance Marketing Services Division (IMS) of Hogg Robinson & Gardner Mountain Insurance Brokers Limited is seeking to appoint a Financial Controller by September 1989. This rapidly developing Division specialises in the creation and administration of affinity Group insurance programmes.

The successful candidate would be responsible for a wide range of accounting functions. He/she will also be responsible for high volume entries onto a digital computer system, liaising with in-house specialists over systems requirements, hardware and PC's.

Working in tandem with the Managing Director (IMS) and reporting to the Group Finance Director, the Financial Controller heads up a four-strong team providing information and advice on all related financial concerns.

Applicants for the position should be qualified Accountants with proven commercial and computing experience. Technical ability, commitment and motivation are as essential as a "hands on" operating style.

You would expect a benefits package including:
* *Salary up to £25k depending on age and experience*
* Performance related bonus
* Company Car
* Other excellent benefits associated with a major British financial services organisation.

Apply in confidence, including a comprehensive CV and salary history to:
Cleo Bowen (Mrs), Recruitment Officer,
Hogg Robinson & Gardner Mountain
Insurance Brokers Limited
Lloyd's Chambers, 1 Portsoken Street
London E1 8DF

INTERNATIONAL INSURANCE BROKERS HRGM

RIYAD BANK

بنك الرياض

Riyad Bank, one of the largest and most prominent Banks in the Middle East is seeking to recruit qualified individuals for the following positions at its Head Office in Riyadh:

EQUITY INVESTMENT MANAGER

As the Manager of the department you will have responsibility for:
- Developing the client investment functions of the bank as well as the size and quality of the client base.
- Further development of investment products including discretionary portfolio management, mutual funds, etc.
- Conducting investment research on Saudi stock companies and markets as well as special projects.
- Strategic planning of human resources, training, systems and structure of the department.
- Supervision of staff and all other operational functions.

The ideal candidate will have approximately seven years sound investment banking background with an emphasis on marketing and at least three years management experience. Essential skills must include market research, planning and portfolio investment strategy formulation. A mature, adaptable outlook and previous work experience in the Middle East is desirable.

CORPORATE FINANCE MANAGER

As the Manager of the department you will have responsibility for:
- Developing and implementing a marketing strategy aimed at soliciting and sustaining relationships with major corporations and institutions.
- Proposing, structuring and finalizing a wide variety of products, such as syndicated credits, trade and project finance, leveraged transactions and leasing.
- Supervising staff and operational *functions*.

The position demands a mature individual with at least five years experience in investment banking at a major financial institution. The successful candidate, should have sound marketing and credit skills. Prior Middle East experience is an advantage.

These positions carry a fully competitive salary and expatriate benefits package.

Please submit your applications in confidence to:
The Assistant General Manager, (Personnel),
Riyad Bank, Head Office, P.O. Box 22622,
Riyadh 11416, Saudi Arabia.

ORMOND COLLEGE

THE UNIVERSITY OF MELBOURNE
THE MASTER

Applications are invited from men and women for the position of Master (ie Head of the College).

Ormond College was founded in 1881 as a residential College affiliated to the University. It is related to the Uniting Church in Australia.

The College has 365 members (men and women), including Fellows, tutors, and postgraduate students, and maintains an extensive academic programme. The College grounds cover over 10 acres attractively landscaped and the Master's residence, a modern family dwelling, is located there.

Candidates should have appropriate academic qualifications and be prepared to play a part in the general life of the University.

The remuneration package will be negotiable around A$80,000 per annum. The Master's residence is provided as part of the package. The appointment in the first instance will be for a term of years. It is hoped that the successful applicant might take up duties in the first half of 1990.

A Paper of Information is obtainable from the Chairman, Ormond College Council, Ormond College, Parkville, Victoria, 3052, Australia, (Telephone: (03) 348 1688 Facsimile: (03) 347 8084), or from Appointments (36617), Association of Commonwealth Universities, 36 Gordon Square, London WC1H 0PF, UK.

Closing date for applications is 23 September 1989.

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A major European Bank with an International Banking network seeks an experienced Senior/Chief Dealer to develop non-sterling cash markets and off-balance sheet products within its Treasury Division. Key areas will include *US$ FRA's, Financial Futures and Interest Rate* Swaps. The successful candidate will be in charge of a team of 3 Dealers.
In view of the importance of this position the successful applicant is likely to have 7 yrs dealing experience, including at least 2 yrs off-balance sheet trading.
In view of the importance of this position the successful applicant is likely to have 7 years dealing experience, including at least 2 years off-balance sheet trading.
Applications, in confidence, should be submitted together with a full CV to
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for further information call
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We are an International Investment Management Firm looking for an experienced, energetic and motivated individual to join the settlements team with responsibility for security settlements, portfolio accounting and client reporting.

The position calls for direct experience of IMPART, spreadsheet software and dealing with multi-national, multi-currency portfolios.

Do not apply if you lack energy, enthusiasm for electronic support systems and at least three years relevant experience.

Salary: Commensurate with experience.

Please send your CV to:

Paul Nesbitt, Mellon-Pictet International Management Limited, Cutlers Gardens, 5 Devonshire Square, London EC2M 4LD.

Members of FIMBRA

COMMONWEALTH BANK OF AUSTRALIA

TREASURY STAFF

The CBA is a major Australian bank with an established presence in the London foreign exchange and money markets. We are seeking to consolidate our position in the major markets and to take on junior dealers with some trading experience to satisfy our future needs.

We invite applications for the following positions:-

* **Junior spot dealer**
* **Junior forward dealer**
* **Trainee dealer**

The persons we are looking for are likely to be in their early twenties as the jobs on offer *present an opportunity for bright young people with energy and enthusiasm to join a team* that has grown significantly in recent years and is likely to continue to expand.

Also being sought is a:-

* **Graduate trainee**

This person should be a recent graduate and will join our Treasury Services group which provides administrative support to the trading operations. A good quality commercial degree with strong emphasis on economics and/or law is preferred.

Competitive salary packages embodying the usual banking benefits apply. In the first instance please send your curriculum vitae (CV) to:

The Personnel Manager
Commonwealth Bank of Australia
8 Old Jewry
London EC2R 8ED

COMMONWEALTH BANK OF AUSTRALIA

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To apply please write in confidence to **Louise Gore at John Sears & Associates, Executive Recruitment Consultants, 2 Queen Anne's Gate Buildings, Dartmouth Street, London SW1H 9BP Fax No. 01-222 3445 or telephone her on 01-222 7733.**

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With the approach of privatisation a new and challenging opportunity has arisen, for the post of Treasurer.

Reporting to the Executive Director (Finance), the Treasurer will be responsible for all aspects of the Treasury Function including cash forecasting, the efficient use of working capital, banking arrangements and the management of short, medium and long term funding; ensuring that funds invested earn maximum returns commensurate with suitable protection from exposure by the utilisation of appropriate instruments. The Treasurer will also be responsible for the Company's insurance arrangements.

The successful candidate will ideally be a qualified Accountant with substantial treasury experience in a major plc or equivalent.

An excellent benefits package is associated with this position including relocation assistance where appropriate.

For more detailed information call our Recruitment Advisor David Phillips (ref: DP416), on 021-633 4913 (daytime) or 021-427 3275 (evenings and weekends). Alternatively, send a full cv to him at MSL Advertising, Centre City Tower, 7 Hill Street, Birmingham B5 4UA.

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Major international house require good sales person who has approx. 3-5 years experience covering all instruments. This is a managerial level position.

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We have a number of vacancies for people to work in West Germany, Spain and Italy selling fixed income Euro's in major currencies. We are also looking for people with good experience, to be based in London, to sell to Canada, USA, UK, Germany, Switzerland, amongst others. All positions require fluency in the languages and offer good salary packages.

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We require an interbank currency option trader with a minimum of 18 months continual experience. While ambitious, the applicant must be able to work with others in the team and have an outgoing attitude. Other Capital Market instruments experience will be helpful.

Warrants Trader **c£35,000 + Bens**
Prestigious overseas securities house are seeking a Japanese Warrants Trader with minimum of 2 years experience. You will be currently working for a market maker and have experience in working a book.

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Market leader in FX require good quality FX Traders to work the overnight shifts. You will be trading one or more currencies. You will be paid an odd hours bonus.

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A major European bank, based in London, are seeking a top class marketing person with 3-5 years experience in UK Middle Market covering UK property market, M.B.O.'s etc. You will also have experience of capital markets and treasury instruments.

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Tel: 01-403 4645. 0206 572352. 0273 686286
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The Euro Brokers Interest Rate Swap Group are seeking a replacement broker to cover Scandinavia from London in all aspects of Off Balance Sheet finance.
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Miss C J Buggins
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London EC4R 9EQ

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We are currently advising the Asset Management Arm of an International Investment House, in their search to appoint a Head of Fixed Interest Fund Management.

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It is envisaged that the successful applicant will have gained a minimum of 10 years experience within this specialist sector, with a thorough understanding of all multi-currency fixed interest instruments, with a particular emphasis on high quality domestic issues, together with a proven performance record to date. Strong management, interpersonal and exceptional marketing skills are a prerequisite for this challenging position.

An attractive remuneration package is offered, reflecting the seniority of the position, together with the opportunity to make a key contribution to a rapidly progressing company.

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Alternatively forward a comprehensive Curriculum Vitae to the address below:

A M S Applied Management Sciences Limited — 17 Bedford Row, London WC1R 4EB Tel: 01-4054571 Fax: 01-242 1411

MANAGEMENT AND RECRUITMENT CONSULTANTS

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Your responsibilities will include raising equity finance, conducting company takeovers and defences, effecting flotations, negotiating mergers, acquisitions and disposals and arranging MBOs and asset finance. The department is one of the largest and most active operations in the City, currently employing 100 people. Furthermore, its work is divided into a number of distinct areas embracing a "mainstream" section, small companies unit, mergers and acquisitions team, overseas and marketing support sections.

To qualify for consideration, you should possess a strong academic and professional track record to date, plus the sound communications skills, personal flair and commercial judgement which will enable you to make a mark quickly. Prospects are outstanding and will fulfil the aspirations of the most ambitious.

If you are interested in this first class opportunity, please write enclosing a CV or telephone Andrew Norton, Consultant – Banking and Finance Division, who is advising the client, quoting ref. 5330.

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As Publicity and Public Relations Manager you will take responsibility for the interesting and varied promotional activities in which the newspaper is involved. These include a corporate PR programme, specific activities to promote the FT in the UK, Continental Europe and overseas, and a variety of projects designed to build circulation and advertising revenue.

Ideally aged between 30 and 40, you will have several years' experience in the publicity or public relations field, at a senior level, preferably in media-related areas and will have a thorough understanding of the responsibilities involved in running a promotions department. Proficiency in French or German would be an advantage but is not essential.

In the first instance send your detailed CV to Bob Gunning, Senior Consultant, Austin Knight Selection, 17 St. Helen's Place, London EC3A 6AS. Please quote ref: 1024/JRG/89.

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As a result of recent reorganisation which further underlines their long term plans for the Gilt market, NatWest Capital Markets are now looking to expand their sales team.

You should be an experienced sales professional with 5-10 years' experience in this field with particular emphasis on the longer end of the Gilt market.

In return a competitive package will be offered including company car and a full range of benefits.

To apply please write, in confidence, with full cv to:
A. Patrick Howard, Director Gilts,
NatWest Capital Markets Limited, Drapers Gardens,
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NatWest Capital Markets Limited

JOIN A TEAM OF LEADING-EDGE FINANCE PROFESSIONALS

The Alcar Group is a fast growing, U.S. based multi-national provider of consulting, data and sophisticated financial software to top corporations and financial service firms. We are looking for several highly qualified professionals to assist us in our growth in the U.K. and Europe.

Responsibilities will include:

- Managing client relationships
- Helping clients implement sophisticated corporate finance techniques to evaluate business unit performance and investment opportunities
- Developing and delivering presentations to senior managers
- Marketing products and services to existing and new clients

Candidates will be highly motivated and creative self-starters who possess a minimum of 2 to 3 years of relevant work experience; strong accounting, finance, communications and interpersonal skills; and highest ethical standards, European language CA or MBA are desirable.
Please send C.V. and salary requirements to:

Arabella Romilly
The Alcar Group Ltd
Ely House, 37 Dover Street
London W1X 3RB

No agency or phone enquiries, please.

WOLFSON COLLEGE, CAMBRIDGE
BURSAR

The college wishes to appoint a Bursar from January 1990. The Bursar has overall responsibility for the investments, finances and management of the College. The appointment could be full-time or part-time, detailed duties and supporting staff being arranged accordingly. The successful candidate will be elected into a Fellowship.

Further particulars may be obtained from the College secretary, Wolfson College, Cambridge CB3 9BB (tel.0223 334900). Applications should be submitted to the President by 25 August 1989.

REUTERS REUTERS REUTERS

A SENIOR ROLE IN CREDIT MANAGEMENT

c.£19k + benefits • City

Reuters is the leading world news and information organisation. The company has thousands of business and media subscribers throughout the world.

As a result of promotion we are looking for a Deputy Credit Manager to head our team of collection staff.

For this key role, we are looking for a person with at least five years experience in a senior credit position, preferably with a large commercial organisation. Excellent communication skills are needed with the confidence and credibility to deal with our clients' senior executives. You must be able to motivate staff and organise effort to consistently meet targets and achieve overriding objectives.

We have a fully computerised sales ledger system, and, during the course of this year will be transferring a number of peripheral tasks to a micro-system. You will be expected to make a significant contribution to the development of credit management procedures and systems, as indeed you will on all operational matters concerning the department.

As well as the attractive salary, we are also offering a package of benefits including BUPA cover, six weeks' holiday and an opportunity to participate in the Reuter SAYE Share Option Scheme.

If you are ready for such a move, please apply either by telephoning 01-353 7329 (24 hour answering service) for an application form or by sending a full CV to: Monique Geljon, Recruitment Executive, Reuters, 85 Fleet Street, London EC4P 4AJ.

Reuters is an equal opportunities employer.

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CORPORATE MARKETING — UK

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هكذا منه الأصل

ARTS

Opera al fresco

VERSAILLES

Open-air opera in tourist beauty-spots is the latest vogue of this now most fashionable and "sexy" of the performing arts. Fawzi Mitwali, the Egyptian-born, Viennese-based businessman and travel agent who mounted *Aida* at Luxor, was thereafter invited by the French Government to mastermind a similar project – an "International Festival" (15-30 July) – to form part of the Bicentenary celebrations.

The chosen site was not, of course, the Théâtre Gabriel, the Sun King's exquisite jewel of a small opera house, where many of Lully's operas were first given; and it was not the grand courtyard entrance to the palace, which might have provided an acoustically feasible enclosing space for large-scale opera – permission was evidently refused for reasons of monument preservation. Instead, Mitwali and his associates placed their stage in the Pièce d'eau Suisses, the large reservoir to the left side of the palace.

Three grandstands near the water's edge hold the audience, and amplification is needed to transport the music across the interposing spaces. The chosen operas are *Andrea Chenier*, conducted by Anton Guadagno, and *La traviata*, conducted by Julius Rudel; prices start at 3,000 F.frs, with a supplement for the opening-night *Chenier* with Placido Domingo. Refreshment tents (catering by Lenôtre) are dotted about on the fringes, with prices to match the those of the tickets general level (a Coke costs 30 francs); evening dress is de rigeur; and package-parties from Germany and Britain are making up a substantial section of the audience.

Experience of the first two evenings has not been happy. Forging a connection between lyric theatre and an attractive outdoor setting with Historical Overtones is an artistic act at best improbable, and, I fear, basically philistine. Here it was rendered absurdly tenuous by the feebleness of the amplification process (banks of speakers above the stage reducing voices and instruments to the dimmest monochrome, the oddest vagaries of balance caused by passing mishaps with body-mikes). Noise from the nearby main road and railway line, not to mention the light aircraft that dogged much of the *Traviata* first half, was an intermittent minor irritation.

And the glossy, perhaps even vulgar, spectacle that might have provided a small token of compensation was simply absent. The two operas shared basic sets – reversible house facades differently decorated – built by the Opéra de Wallonie (which also provided the mediocre orchestra and chorus). Both operas unfolded thereupon with decent speed and efficiency; but, except for a torchlit parade of condemned prisoners in a cart drawn across the full length of the stage and then off into the distance, an effect that brightened Act 2 of *Chenier* without having very much to do with it, these were inert bargain-basement stagings – unimaginative, cheap-looking, essentially opera-house-bound. The genuine exploration of site and space that marked the Earl's Court *Carmen* was light-years distant.

The subject-matter of Giordano's opera music and the "effectiveness" of his music, in equal measure bone-headed but reliable, allowed *Chenier* a slightlier livelier impact. Domingo, in spite of an announced cold, was at his most stylish and musicianly in the title role, and Katia Ricciarelli (Madeleine de Coigny) was in marvellously unforced voice; with two such communicative artists in the forefront, even the tattiest presentation of the most trivial opera must develop a certain "go." But the *Traviata* – with Edita Gruberova (a shrewd, highly capable, essentially colourless Violetta), Francisco Araiza and a noble but somewhat tired-sounding Renato Bruson – was a washout: the infinitely greater opera was here the infinitely greater victim.

What is this "Festival International d'opéra au Château de Versailles" for? A less celebratory or, given the audience dress, appropriate way of celebrating 1789 could hardly been imagined; and, as for helping to build up further opera's new mass audiences, the prices have surely put paid to that (on both opening evenings there were huge unfilled areas in all three grandstands). For myself, I went along determined not to be snobbish or patronising, and came away in a mood of puritan bad temper, wishing a plague on the entire enterprise.

Max Loppert

Alexej Merkushev

Derevo

ICA THEATRE

Leningrad-based Derevo, founded in 1986 by Anton Adasinsky, are the sort of experimental company that prefer words like people, awareness and existence to actor, acting and theatre. Their work is vivid and at times rampantly self-indulgent, but every time one feels ready to write them off they produce an image that simply cannot be ignored. Their theme is the creation myth in its varying permutations, which they rehearse with an imagery clearly influenced by pop sci-fi movies, from *The Man Who Fell to Earth* to *2001 Space Odyssey*.

They begin their LIFT appearance with a procession through the packed foyer of a writhing accordionist and a bald powdered figure, reminiscent of one of Lindsay Kemp's creations. It continues with a line-up of bad circus performers, who botch a series of tricks before sauntering up to audience members and inviting us to contribute to the slapstick by administering kicks to their proffered backsides.

It is a perplexing, rather embarrassing prelude to what suddenly develops into a series of surreal – and highly serious – friezes involving humans and animals in often sacramental combinations. What could be a lion scrabbles at what could be a man hanging from what could be a cross; a birdlike biped struts around the stage in a routine which develops into a choreography of horsemanship.

Candles and chimes set in train a religious symbolism which seems to develop from Catholicism to Bhuddism; then all of a sudden the bawdy humour is back with the rupture of a huge scrotal conglomerate of balloons spurting the stage with an unsavoury vomit-like liquid and giving form to a female figure, still draped in a dripping caul.

One is tempted to say one has seen it all before, and yet there is a stately beauty to some of the images that keeps the impetus going through the overlong inter-scene hiatuses and the front-of-stage episodes which, thanks to the appalling sight lines of the overfull ICA, can't be seen at all by anyone beyond the front row. The mimework is often hypnotically skilful, while the final post-apocalyptic shadow play of two diminishing, embryonic figures gently pushing a skeletal gate to and fro, sends one out into the night feeling that it has all, after all, been worth while.

Claire Armitstead

TELEVISION

From macho male to emotional turmoil

In the recent past the world's most successful television exporter, the US, has radically changed the character of its programme exports. Where once they sent us drama series which were unmistakeably masculine and full of violent action, now they send us deeply feminine series, full of talk and largely concerned with agonising over human relationships.

For more than 30 years, starting in the early 1950s, the sort of phrases you heard most commonly from American programmes were:

"Put your hands up!"

"Ten four and out"

"Book 'em Dano"

"Let's go!"

"Get 'em up, move 'em out" and other such macho, monosyllabic exclamations indicative of energetic activity.

Of course there were human relationships even in Westerns such as *Gunsmoke*, *Wagon Train*, and *Rawhide*, but people spent very little time immersed in conversations analysing their feelings towards one another. They were much more likely to be galloping across the prairie in pursuit of a gunfighter, or negotiating a fast flowing river in a covered wagon. The most you were likely to hear in the way of introspection or motivational analysis was the occasional glum observation that a man had to do what a man had to do.

Much the same was true of police series such as *Dragnet*, *Naked City*, and *Hawaii Five-0*. The horses became cars, the feuding over water rights became gang wars over drink or drugs, but the central element was virtually unchanged: the good guys imposed their will upon the bad guys by being harder with their fists and quicker with their guns.

The same could be said for detective series such as *Johnny Staccato*, *Cannon*, and *The Rockford Files*, and for such secret agent series as *I Spy*, *The Man From UNCLE*, and *Mission Impossible*. As in the police series, men raced up fire escapes, leaped across roof parapets, drove cars through stacks of cardboard cartons, dived into docks, and above all fired guns at one another.

The changes began with such series as *Lou Grant*, *Cagney And Lacey*, *Hill Street Blues*, and *Moonlighting*. In these we started to see the icy, the fantastic and the feminist. At first it was a definite improvement. Although there was a mass of plot in *Lou Grant* there was also an interest in the forces driving human relationships; an interest which has an important presence in drama from Aeschylus to Ayckbourn and which was seriously under represented in those earlier American action series.

Similarly *Hill Street Blues* was more interesting than *Kojak* because we could see not only what the police did but also why. The fact that Belker looked after his elderly mother had a bearing upon the way that he did his job (though it might not quite explain why he bit people . . .) and the domestic relationship between Frank Furillo and Joyce Davenport was significant.

Ken Olin and Mel Harris in "thirtysomething:" one of the latest US exports to the UK

But with *Cagney And Lacey* it was not a question of the human relationships enhancing our understanding of the plot: they actually acquired equal importance. The macho types that we had followed for so many years in *M Squad* and *Boretta*, and which had been held up to us as heroes, suddenly became villains now that feminism had entered the frame.

With *Moonlighting* we reached a point where entire episodes could be taken up with the state of the relationship between Maddie and David, while the plot, if it existed at all, was pushed well into the background. Moreover *Moonlighting* brought us fantasies which did not have to be "explained" as dreams in the fashion of a Hollywood movie, but were allowed to stand in their own right. That development reached its logical conclusion in *Beauty And The Beast* which unashamedly mixed the conventions of the fairy story (a leonine being living in tunnels below New York City) with those of the normal American television drama series (an attractive woman working as a lawyer).

Now we have a whole raft of American series in which human relationships are paramount; women rule the roost as often as not; fantasy is readily mixed with reality; and the most admired men are those who are forever taking out their feelings in public and turning them over in their hands like a set of false teeth on which they expect to discover a lurking tomato pip. If the models for the early action series were writers such as Raymond Chandler and Zane Grey, the models for this new set appear to be Iris Murdoch and Margaret Drabble.

Lines delivered in American drama series shown in Britain during the past couple of weeks have included:

"Didn't they tell you that socialisation begins at day care?" (from *thirtysomething*).

"First you have to find somebody you like, then there's 'is be threatened by your job?'" (*Leg Work*) and

"I had a frighteningly clear vision of myself ten, fifteen years from now, my ailments might not be quite so psychosomatic, and if the 35 years between us seems troublesome now, believe me ten years from now you'll hate me for it." (*LA Law*).

We seem to have moved an awfully long way from "Get 'em up, move 'em out," though in most cases the settings are anything but unfamiliar. *LA Law* for instance is a legal series in the long American tradition stretching back through *Perry Mason* and *The Defenders*, but now we spend the bulk of the time not in the court room but in the offices of the law company where the lawyers have conversations such as this:

"Maybe thissud be a good time to clear the air, soda speak."

"What about?"

"About this whole kinda tripartite sub stratum that exists among the three of us: Roxanne's attitude to you, me and Rox, you and me . . . "

Leg Work is a private detective series. However, the detective is not a middle aged man in a trilby but a pretty young woman in a Porsche. Her client this week was not a blackmailed adulterer but a young homosexual dying of Aids who wanted a previous partner found and warned.

Hooperman is a police series featuring a caring cop who works in a precinct commanded by a woman. He also employs a stunningly attractive female plumber. His chief concerns this week were not jumping parapets or running up fire escapes (though he did shoot his gun at people) but persuading a colleague to have his cataract condition seen by a doctor, and tracing a runaway "juvenal" who had been beaten up by his father. Hooperman's great virtue is that he behaves like a woman.

The Bronx Zoo is a latterday *Blackboard Jungle* where recent dialogue included:

"He misses me, Mr Barnes"

"Yeah, but I can't have you breast feeding in class," and:

"So often in life you're forced to deal with things that are just beyond your emotional and spiritual ree-sources . . ."

Paradise is the first new Western for many years, and in the central situation gunfighter Ethan Cord has to look after his sister's four children. In addition to being incredibly fast on the draw, it turns out that he is also a wonderful mother.

Studio 5B has elements of *Broadcast News* (the most authentic film ever set in a television studio) but the chief interest turns out to be, not the making of television programmes, but the emotional relationships of the staff. This week's episode was all about David's son Josh, David's desire to be a dad, and ex wife Maggie getting custody.

And of course *thirtysomething* is the series which sets out deliberately to be about nothing but the emotional turmoil of its characters. Here men open conversations with lines such as "Is she ovulating yet?" and the air is thick with the word "Commitment".

This is a world which would be not just unfamiliar to *Gunsmoke's* Matt Dillon or Chief Dan Matthews of *Highway Patrol*, it would be virtually incomprehensible to them; vivid proof of the social revolution which has occurred in the US in the 30 years since 1959.

And now there is *another* straw in the wind. In *Studio 5B* last week they were talking about "whining feminists" and "male bashing". A hint, perhaps, that in the country where change is virtually a religion, matters are about to move on yet again.

Christopher Dunkley

Alceste

COVENT GARDEN

The 1776 Paris *Alceste* of Gluck cannot quite qualify as an opera of the Revolution, though its appearance for a single performance at the Royal Opera House on Sunday, courtesy of the English Bach Festival, was as near to bicentenary celebrations as the house has come.

The EBF production is a period one on all counts. Against painted backdrops displaying palatial colonnaded interiors, the producer, Tom Hawkes, has directed his cast according to current notions as to what constitutes an authentic style. Attempts to do this in other quarters have tended to result in a lot of exaggerated flouncing that can bring a smirk to the faces of the audience even during high tragedy, but on this occasion the effect was simple and dignified.

To that extent, Gluck received better treatment than he does in most modern productions. The handling of the chorus was especially effective and with a greater proportion of dance included than usual (the dances at the end provided a genuine climax) the balance was heavily tilted towards the work's public aspects, where formality, order and elegance are to the fore.

Unfortunately, the glory of *Alceste* lies elsewhere. It is Gluck's ability to express difficult private emotions through an unadorned vocal line that raises the opera on to a higher level and, to do him full justice, the evening required solo singing of a generally higher standard than we had here. Gilles Ragon was a shallow-voiced Admetus and Neil Howlett doubled the High Priest and Hercules with less than ideal elan.

From the Alcestis of Clare Primrose it would be unfair to expect in the context of a period performance the sort of forceful dramatic grandeur experienced with Flagstad or Callas, Varady or Baker; but, even so, there was some want of tonal and expressive depth, well though she encompassed the vocal range of the part.

The conductor was Marc Minkowski, leading his somewhat tentative players in a reading of dance-like grace.

Now that the English Bach Festival has advanced the cause of period performance at Covent Garden to the age of Gluck, perhaps the Royal Opera will follow suit, or even go one better. There is plenty of time to make the next Mozart cycle an "authentic" one.

Richard Fairman

Artur Pizarro

WIGMORE HALL

Portuguese-born but now a pupil of Sequiera Costa in the US, Pizarro made his London debut on Monday as the winner of the 1987 Vianna da Motta Piano Competition. The prize is a prestigious one, and Pizarro proved to be an able, technically immaculate performer, who ultimately projected a rather more distinctive personality than the earlier stages of his recital had promised. Though he had clearly planned the works – a chronological sequence from Mozart to Albeniz – to demonstrate his capabilities across a wide spectrum, his playing became markedly more impressive when the 20th century was reached.

His Mozart (the C minor Sonata K.457, given *sans* the partnering Fantasy) provided evidence of crisp articulation, a bright well-focussed sound, but little natural expressiveness; rubato was self-conscious, dynamics restricted. And though the control of Beethoven's Les Adieux Sonata was equally complete, it conveyed little else than severe good manners; any natural musicianship that Pizarro possessed appeared to have been suppressed by his fastidious schooling.

Chopin's A flat Polonaise-Fantasie, however, revealed a more confident shaping of each paragraph, began to find some space for personal inflection and yet conveyed an admirable restraint. No fences were rushed, and if the final result lacked physical excitement, the framework is all convincingly in place for the future; Pizarro is still only 21, and his playing has the capacity to put real flesh on these well proportioned musical bones.

In the miniatures of Debussy's *Children's Corner* and two pieces from Albeniz's *Iberia*, though, all the elements had been mustered. The control of texture and colour, and the vivid profiling of rhythmic detail suddenly revealed a pianist matched to the music that suits him best: the eagerness with which he attacked the syncopations of "Gollywog's Cakewalk" and "El Puerto" was in marked contrast to his regulation outlining of four-square classical shapes. There is a real, fresh talent there, in the right repertory.

Andrew Clements

ARTS GUIDE

July 14-20

THEATRE

London

The Merchant of Venice (Phoenix). Dustin Hoffman's Shylock a sympathetic, semaphore-gesturing alien in Peter Hall's fine Venetian Renaissance production, Geraldine James a superb Portia (836 2294).

Much Ado About Nothing (Strand). Alan Bates and Felicity Kendal lead strong ad hoc company in turnabout fortnightly rep with Chekhov's early, astringent Ivanov. Not to be despised (836 2660). Ends July 29.

Ghetto (Olivier). Brilliant National Theatre version of Joshua Sobol's Israeli play about the last days of the Vilna ghetto and its resident theatre company. Moving and shocking. Nicholas Hytner directs, Bob Crowley designs, good music arranged by Jeremy Sams. July 20-26 (928 2252).

London International Festival of Theatre. LIFT, the fifth biennial festival takes place all over London during July. Recommended highlights are the Abbey Theatre of Dublin in Tom Murphy's *A Whistle in the Dark* at the Royal Court (730 1745) all month, the Katona Josef Theatre of Budapest in Chekhov and Gogol at the Old Vic (928 7616) until July 23, and the Comédie de Genève in Strindberg's *Miss Julie* at the Lyric Hammersmith (741 2311) in the last week only. More details on 240 2428.

Anything Goes (Prince Edward). Cole Porter's silly ocean-going 1930s musical has four or five marvellous songs and Elaine Paige failing to emulate Ethel Merman. Jerry Zaks's desperately bright production comes from the Lincoln Center in New York. (734 8951, cc 836 2428).

The Voysey Inheritance (Cottesloe). Dullish National Theatre production by Richard Eyre of Granville Barker's classic, suddenly contemporary saga of an Edwardian family and its fortunes. Insider trading, speculation with client's funds, moral purges and materialistic philosophy all render the Voysey clan a very familiar crowd. (928 2252).

Single Spies (Queen's). The highlight of Alan Bennett's double bill is a comic confrontation between Prunella Scales as Her Majesty the Queen and Bennett himself as Anthony Blunt in the royal picture gallery. Clive Francis plays Guy Burgess in a rehash of Bennett's fine TV film *An Englishman Abroad* (734 1166).

M. Butterfly (Shaftesbury). Anthony Hopkins as the tortured diplomatic hero in a Peter Shaffer-style "spectacle of ideas" dressed up in John Dexter's superb production as a metaphor of homosexual life. The transvestite tragedy proves less electrifying than in New York. (379 5399).

The Vortex (Garrick). Maria Aitken and Rupert Everett in brilliant reappraisal by Philip Prowse of Noel Coward's 1924 study of drug addiction and mother fixation. Mannered, excessive, beautifully costumed. A must for yuppies (379 6107, cc 741 9999). Ends July 22.

Henceforward (Vaudeville). Martin Jarvis and Joanna van Gyseghem in bleakly funny and experimental Alan Ayckbourn comedy of future shock and strained marriage. A tale of obsession, devotion, computer music, women as robots, gangs on the streets and a tug-of-love (836 9987, cc 741 9999).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic insouciance. A probable, but unspectacular, hit (839 5972).

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Twelfth Night (Delacorte). Jeff Goldblum heads the cast in this free outdoor performance in Central Park that begins the New York Shakespeare Festival's nearly 30th year of culture by moonlight. Director Harold Guskin has elegantly set the comedy in designer John Lee Beatty's version of turn-of-the-century Monaco. 81st Street entrance on the west side. Ends July 23.

Lend Me a Tenor (Royale). A sprucing up in the set of a decaying town's big time opera ambitions makes a transatlantic hit of this farce, first produced in London, but now with a local cast led by Philip Bosco and Victor Garber (239 6200).

Shirley Valentine (Booth). Pauline Collins brings her West End triumph to Broadway in Willy Russell's amusing and touching story of a Liverpool woman's awakening in the Aegean Sea. Simon Callow again directs without smoothing any of the Northern English edges that retain an authentic touch.

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including On the Town, West Side Story and Gypsy. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Chicago

A Funny Thing Happened on the Way to the Forum (Goodman). Stephen Sondheim's most popular musical, for which he wrote both music and lyrics, stars Louis Di Crescenzo as Pseudolus in Burt Shevelove and Larry Gelbart's adaptation of Plautus. Ends Aug 6.

Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy Loudon, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

Les Miserables (Auditorium). The international spectacle has settled in for a long stay by the Great Lakes (922 2110).

Tokyo

Kabuki. Both the matinee and evening performances at Kabuki-za (541 3131) feature the prodigious Ishikawa Ennosuke, whose barnstorming acting style, spectacular aerial stunts and costume quick-changes have attracted a younger audience to kabuki, but also reflect its roots as a truly popular theatre. At 11am: a mixed programme of four short plays. At 4.30pm: Hitori Tabi 53 Tsuki, a colourful tale of inheritance and vendetta which includes a fight beneath a "real" waterfall (ends July 27). At the National Theatre (265 7411): *Narukami*, noted for its curious mixture of bawdiness and Buddhism (ends 25 July). This performance is intended mainly for Japanese schoolchildren, so expect a boisterous audience! Both theatres have informative English language programmes and earphone guides in English.

Les Miserables. (Imperial Theatre) Strongly-cast revival (in Japanese) of the stirring musical of the storming of the Paris barricades (201 7777).

The Phantom of the Opera. Nissei Theatre (045 908 5701). This excellent production (in Japanese) is a carbon copy of the London original.

Academy of Arts, Berlin. Das Triadische Ballet. Reconstruction of one of the most famous examples of Weimar culture. Sogetsu Hall (Tues, Wed, Thur) (407 8248). **Susan Marshall and Company.** Modern dance company from New York. Spiral Hall, Omotesando (Tues, Wed, Thur) (405 5559).

SALEROOM

Cashing in on golf

Did the Dutch invent golf? The heinous thought arose with the discovery of two 17th century bronze golf heads, with the end of the original shafts inside them, on the wreck of a Dutch East Indiaman, the "Lastdrager," which sank off the Shetlands in 1653. Sotheby's sold them in Glasgow on Monday for £9,900 each, just below forecast, to the London dealer Spink.

The heads are the earliest ever to have been found and are similar to examples excavated from another Dutch wreck which was lost off Lerwick in 1664, suggesting a cross fertilisation between Scotland and the Netherlands in the 17th century.

Top price in an auction held to co-incide with the British Open at nearby Troon was the £20,350 paid for a portrait of the legendary golfer Old Tom Morris, who won the British Open four times in the 1860s, by John McClymont.

Christie's holds its golf sale tomorrow in its Glasgow auction room. The top price, of around £10,000, is expected to be paid for a third edition of "The Goff, an Herio-Comical Poem" by Thomas Mathison, printed by Peter Hill in Edinburgh in 1793. The fact that it was owned by the celebrated amateur golfer John Anderson increases its value. Among the clubs, a rut iron with ash shaft of around 1790, carries a £4,000 top estimate.

Meanwhile in London yesterday Sotheby's made £310,574 from its morning session of ceramics and glass. A cameo plaque dating from around 1880, decorated with two classical dancers, sold for £12,100. The saleroom believes it was made by George Woodall. The same sum secured a 57 piece Royal Worcester desert service, made between 1908-26, and bearing the mark of retailers Waring & Gillows.

A large Minton pâte-sur-pâte vase, 23¼ inches high, made around 1880, by Marc Louis Solon, was bought for £10,450, around double its estimate and a 255 piece Masons Ironstone dinner service of around 1825, fetched the same sum. Two more Solon vases made £9,000 each.

Antony Thorncroft

FINANCIAL TIMES
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Priorities for the Tories

BRITAIN'S Prime Minister is considering a reshuffle of her Cabinet. Whether a reshuffle will do enough to improve the Government's popularity is open to doubt. It is true that some ministers are good at persuading people to accept the Government's policies, while others are not. Mr Kenneth Baker has done more to change the structure of state education than any of his post-1945 predecessors and has sold his reforms effectively. On the other hand the Environment Secretary, Mr Nicholas Ridley, has failed to convince the public that he is a true friend of the earth. Changing Mr Ridley may initially improve the Government's green image on television, but it is its policies that will tell in the end.

Mrs Thatcher's achievements since she arrived at No 10 Downing Street in 1979 are widely recognised. She tackled public spending, inflation, and trade union power. The privatisation programme has, on balance, been beneficial. Business has been revitalised.

Yet something has gone wrong, the main thing no doubt being the economy. But when the economy is going wrong, other mistakes become more obvious. Mrs Thatcher's vociferous nationalism, of the kind expressed in the recent European elections, is as out-of-date as the corporate state politics of the 1970s. The poll-tax is both a mistake and a potential vote-loser. The reform of the National Health Service has been hastily conceived and badly handled, as is true of the privatisations of water and electricity. Though the green paper on legal reform had the merit of tackling lawyers' restrictive practices, the question today is whether the Government is sticking to its guns.

Tackling inflation

Tackling inflation remains the overriding priority. The current policy of the Government is on the right lines, but its effects are likely to be slow in coming. A long period of stagflation is the most likely prospect.

This being so, it becomes still more important that the details of structural reforms be more carefully considered than in the recent past. For example, the role of nuclear power in the privatisation of electricity needs to be changed. Equally, the health service reforms should be introduced more carefully, preferably on a pilot basis.

The current rash of public sector strikes is a consequence of both the increased rate of inflation and the reduced rate of unemployment, but this calls into question the belief that the trade union legislation of earlier years is an adequate formula for the maintenance of industrial peace. The power of unions in monopoly public services needs particularly careful attention. More generally, the linked issues of education, training and the labour market remain the highest priorities. A lot more money is going to have to be spent in these areas, most of it coming from the Government.

Public transport

More money will have to be spent elsewhere, too. Public transport is one example, though here there is an entirely legitimate question concerning the proper balance between public expenditure and charges on the consumer. In general, however, the objective of lowering the share of public expenditure in gross domestic product should not override a more nuanced consideration of the proper funding of essential public services.

The value of a reshuffle, even a restructuring of government departments, is hugely exaggerated. What matters far more is successful policies. First, the Government will have to stick with its present macroeconomic strategy, hoping to wring out inflation, while avoiding too severe a recession; secondly, it will have to abjure its automatic hostility to large public expenditure increases where they are now obviously needed; finally, it needs to focus its efforts at reform where they are essential for the improvement of the economy or such fundamental aspects of life as the environment. If the Government does not succeed in these respects, it may find its lease on power of all too short a date.

Miners for perestroika

IT IS HARD to remember, as pit strikes flare across the Soviet union, that Communism has tended to appeal to miners. Its egalitarian and fraternal ideals chime with their felt experiences: and the manifest evils of capitalist mining bred in them a distrust of private property and its rights. Further, as readers of Zola's Germinal or listeners to Mr Arthur Scargill will have learned, their politics are shot through with a utopianism which could be captured by the transcendent promises of communism.

That tradition has been weakened in the West. Many of the great west European industries, like the Belgian and the French, are closed or near to it. The West German mines are manned very largely by guest workers. The British miners were on the receiving end of Mrs Thatcher's second most successful campaign. In each case, governments of the right or the inside left have drawn a sigh of relief that these hard, awkward, dreamy men have disappeared or been cut to size.

Proletarian kudos

It is in the socialist countries, however, where their class consciousness has been institutionalised and where they have remained a force. They enjoy shorter hours, earlier retirement and better pay than most other groups. When they demand pay rises or managerial changes – as they have in many eastern European countries in recent months – they usually get them. This is not just because of their proletarian kudos: it is much more because of the vast leverage they can exercise on national economic life, producing their nations' power feedstock and an important – sometimes the most important – hard currency export.

Soviet miners have had good cause for complaint. First, as for everyone else in the Soviet Union and especially in the outlying regions of the Russian Federation, supplies have been bad and getting worse. Secondly, they have not been allowed to become "masters of their pits," though they had been promised they would be: the pits formally went over to financial autonomy on January 1 this year, but nothing has changed, nor, with negligible exceptions, have groups of miners been able to lease pits or sections of them to work for themselves.

A Radio Moscow report two weeks before the strike wave said that in the Donbas pits "the problem is that many collectives are demanding to be allowed to go over to leasing but their managers are unable to guarantee essential supplies of wood, metal and spare parts . . ."

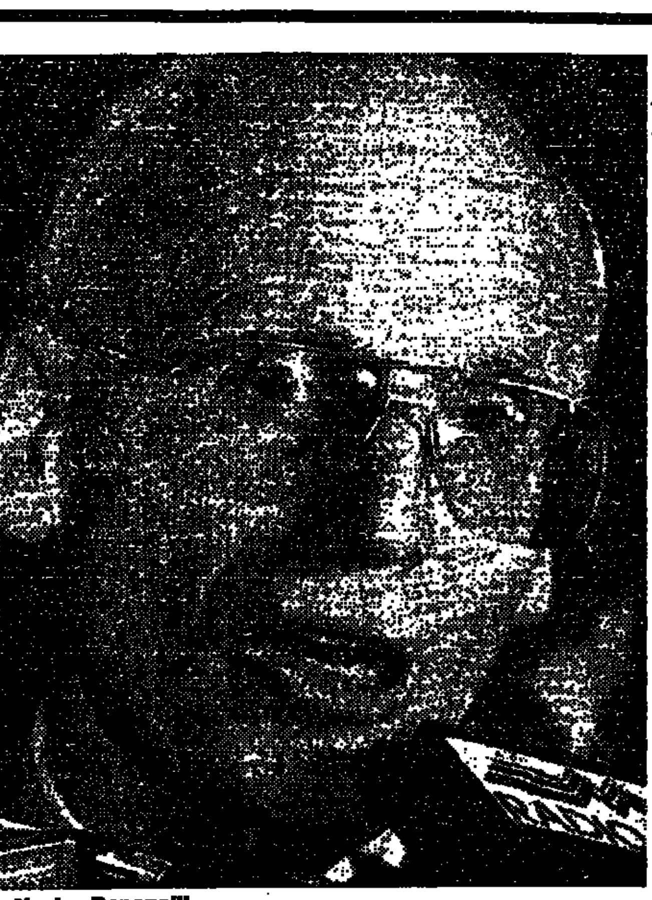
Classic precondition

This, expectation aroused but unsatisfied, is the classic precondition for revolt. It appears a mixed thing: part demand for more devolution of power, an end to Communist Party interference – but also big pay rises and better supplies. It has spread in recent days, from Kuzbas in Siberia to Donbas in the Ukraine: it has been supported both by the central press and by the Central Council of Trade Unions – presumably so that it may be co-opted into a less threatening perspective of "perestroika from below"

It may, indeed, lend itself to that interpretation. Demands for greater autonomy in the face of sluggish management may not be wholly unwelcome to the reformers in Mosocw.

But to turn the demonstrations to good account means, first, ensuring that reforms are made, and that the demands for self-management and a devolution of financial control are met. More importantly, it means telling the miners of the Soviet Union, and beyond them, of eastern Europe, that the managerial and political reforms they want are incompatible with their economic demands – or rather, it is only through successfully decentralised and self-managed pits that a better living standard for themselves and their fellow countrymen can be secured. Left-wing Welsh miners proposed something like this before the First World War: Soviet miners could do worse that get a samizdat copy of The Miners' Next Step.

Change of any kind will not come through allowing the miners to retain their status as communist society's most fearful pressure group. Sooner or later, Mr Gorbachev and his fellow reformers will have to take them on – by setting them free.



● Nestor Rapanelli

Gary Mead reports on President Menem's attempts to dig Argentina out of bankruptcy

Struggling to keep every ball in the air

Carlos Menem ●

Argentina's new Peronist government, headed by President Carlos Menem, has taken the stage with the promise of a repeat performance of a melodrama: "Reform of the Bankrupt State; or The Promise Betrayed." The play has been in the repertoire of Argentine governments of all shades from 1945; since then Argentina has seen 13 emergency economic plans. Despite the sudden death of Mr Miguel Roig, the Economy Minister, on July 14, the curtain has risen on the 14th performance. This time it may just reach the final act.

Mr Nestor Rapanelli, who has replaced Mr Roig, has promised to continue where Mr Roig abruptly left off, by thoroughly reconstructing the country's economy, starting with the most immediate danger, hyper-inflation now running at a monthly 200 per cent.

While the new government has taken the unexpected death of Mr Roig in its stride, the hurdles ahead are numerous. Even if its economic policies prove sound, the trades unions and employers have yet to find common cause in the national good. And president Menem is always likely to be sidetracked by the military, unless he can find some way of meeting their factional demands.

A 90 day price-control agreement signed between government and 300 so-called "price forming" companies is now in place. The government's side of the bargain is an undertaking not to raise public sector tariffs further, and to do its best to control wages during the same period.

Argentines are sceptical about this latest price-freeze. The same market-dominating companies now ready to negotiate with a Peronist government ignored a price freeze imposed by President Raul Alfonsin's Radical Party administration in May this year, and more than doubled their prices on the eve of this one. Hard-pushed consumers are thus determined to ensure their wages go up by three digits this month.

Mr Rapanelli is out of the same stable as Mr Roig; both held a vice-presidential post with the multi-national grains corporation Bunge and Born. In that sense the death of Mr Roig has served to reaffirm the government's commitment to the essentials of his stabilisation programme. On July 9, Mr Roig increased all public sector prices by between 250 and 600 per cent. This affected the prices of petrol, gas, electricity, and transport, among others.

But that move is only the first necessary step, caused by the virtually complete collapse of the state sector; in May government expenditures exceeded revenues by more than 70 per cent. Mr Rapanelli must not only consolidate that effort, he must also steel himself for the complaints that will greet the longer-term component of President Menem's programme, privatisation.

Mr Roberto Dromi, Minister of Public Works, has the daunting task of masterminding the sale of all state-owned enterprises, which currently lose $3.2bn annually – over $8.5m a day. The losses, underwritten by the treasury, have convinced President Menem's government that the only option is to sell as many companies as quickly as possible.

While Mr Dromi's plan – one of the first to be announced – will no doubt gain congressional approval it will meet dogged opposition from both business and trades unions. The government has said that privatisation of telecommunications, shipping, gas and electricity – some of the largest loss-makers – will not mean unemployment. The 2m people employed in the public sector will do their best to make sure that is true. But a major part of the public sector's problem is over-manning.

Privatisation is not unalloyed good news for business. Many of the large "price-forming" companies depend almost entirely on government contracts, which last year cost the state an unnecessary $2bn in over-pricing for goods and services, according to Mr Rodolfo Terragno, a former Public Works Minister.

Like two boxers slugging it out, unions and business in Argentina have a healthy distaste for one another but hate interference from the referee even more. President Menem has to force both to obey rules imposed by a state now urgently interested in efficiency.

At the same time Argentina has $60bn foreign debt, and there is no immediate prospect of talks with its creditors to restructure these borrowings. Industry is suffering a sharp recession, with unemployment and lay-offs now commonplace. According to government figures more than 3m people are now living below the poverty line in the Buenos Aires conurbation – 44 per cent of its population.

Ironically Mr Menem is introducing a stabilisation scheme promoted by his only real rival for the presidency, Mr Eduardo Angeloz of the Radical Party. Mr Menem was victorious because he managed to persuade the electorate that the Angeloz approach was exaggeratedly severe. But since taking office the government has come to believe that it has weeks rather than months in which to act to prevent a serious deterioration of public order.

A further promise from President Menem's team is a revision of the country's tax laws. Independent estimates suggest that only 30,000 individuals pay income tax out of a population of 32 million – partly because of the belief that paying taxes means subsidising government inefficiency

Like two boxers slugging it out, unions and business have a healthy distaste for one another but hate interference by the referee even more

and corruption. The tax reforms promise a universal 10 per cent value added tax, and tighter, simpler rules forcing income tax payments of 20 per cent.

The apparent contradiction at the heart of President Menem's privatisation programme – how can a Peronist demolish what Gen Peron himself built up? – is easily understood once it is accepted that Peronism is merely pragmatism elevated to the status of a creed. Once it suited this populist movement to have all important industry in state hands. Now it does not.

If there are doubts about President Menem's plans they focus on the individual himself. Is he being pragmatic or merely opportunist? Will he eventually cave in to the forces of entrenched corruption which have traditionally opposed opening up Argentina's economy to foreign – and domestic – competition? And if he is going to eliminate *amiguismo*, the Latin American version of the old-boy network, why do so many of his team owe their places to being *amigos* of the President or his friends?

Under the surface of the new Peronist pragmatism, which local pundits are already dubbing "Menemstroika", is an attempt to close a number of painful chapters in recent Argentine history.

In his first week in office President Menem pronounced himself ready to end the formal state of hostilities with Britain, which has endured since the invasion of the Falkland Islands in April 1982. Military chiefs of staff were replaced, prior to the expected general amnesty for those who were involved in excesses during the 1970s "dirty war" against left-wing guerrillas. Two days after saying that he was prepared to end formal hostilities with Britain, however, President Menem played the issue down, saying that "no formal proposals" had been made and that his statement was an expression of his wishes.

Perhaps the most difficult problem facing the new government concerns the likely attitude of those members of the army associated with Col Mohamed Ali Seineldin, who staged a four-day rebellion at the beginning of December 1988. Col Seineldin is a veteran of the Falklands War, and regards himself as a staunch Argentine nationalist. He opposes the least indication of what his supporters term the "social-democratic" inclinations of Radical Party politicians and the "Renewal" wing of the Peronist party. "Renewal" Peronists, who opposed Mr Menem's presidential candidacy, have been kept out of the cabinet, and in the past, the Colonel and the President are known to have had contacts.

Currently under detention for his rebellion, Col Seineldin has become the *de facto* head of what is now openly referred to as the "National Army". His rebellion – like two earlier led by Lt Col Aldo Rico – was staged to demand an amnesty for those military personnel accused of human rights abuses during the "dirty war", when some 9,000 people disappeared; a similar pardon for almost 450 officers cashiered for their part in the three insurrections; and what the rebels describe as a "revindication" of the army's role in society. This last demand is code language for a pat on the back for having fought the Falklands War, and for having (as the rebels see it) destroyed a communist threat during the "dirty war".

But beneath these demands lurks a nationalism now increasingly out of tune with President Menem's pragmatic openness towards befriending any and all other nations. Not the least of Col Seineldin's antagonisms is towards the US, which he regards as a meddling nuisance in Argentine affairs.

President Menem might eventually succeed in his privatisation plans, restore confidence to the economy and halt inflation. But all that will be lost if he is unable to reunite the army. "Menem has two choices. Either he accepts Seineldin in the army, or he pushes him out. But if he pushes him out the army will not respond to Menem when and if he needs it," one of Col Seineldin's civilian supporters said last week.

An almost equally difficult problem is the task of controlling some of Latin America's most powerful, well-organised and stubborn trades unions. Of these, the metalworkers, the Union Obrero Metalurgico (UOM) is the force likely to give most trouble. Last week its leadership demanded a 200 per cent wage increase for July. The UOM's 330,000 membership is a law unto itself, pledging allegiance to Peronism and President Menem but determined to resist any erosion of living standards. Throughout this year's hyper-inflation its salary levels have kept abreast of cost of living increases. The UOM is just the hardest tip of the iceberg. President Menem has recently promised no redundancies in the state sector despite the privatisation programme – which, he calculates needs six months before it begins to bite – and the over-manning.

The threat from unions is that they will refuse to take further punishment. The threat from Col Seineldin is that he may use his influence within the army to dissuade it from acting against social disorder, should it break out again. Looting and riots at the end of May left 14 dead and 800 wounded.

President Menem has moved fast in his first two weeks because he has little choice. Without swift cuts in state spending, inflation will continue to surge. While prices double each week, as is currently the case, trades unions will fight to protect their members. That in turn leads the private sector to doubt the wisdom of a price freeze – another step in the vicious circle. If rioting breaks out again President Menem might need army backing. For that he needs at least the silent support of Col Seineldin. With so many balls in the air at once, it will be surprising if one does not slip.

OBSERVER

Bavarian charmer

■ Much impressed by Theo Waigel, the new West German Finance Minister, in London this week.

Waigel wears two hats: one as head of the ministry, the other as the leader of the Christian Social Union (CSU) in Bavaria as the successor to the late Franz Josef Strauss. In London he was wearing mainly the latter.

Strauss is a hard act to follow: multilingual, known around the world, on visiting terms with Deng Xiaoping and almost anyone he wanted to see. Until recently Waigel was not much heard of outside Bavaria.

That did not prevent access to Margaret Thatcher, however, partly on the basis that the CSU and the Tories are fellow conservative parties with a great deal in common. At least, they *ought* to have a great deal in common. Waigel thinks they are alike in being green, conservative and at the same time believing in economic growth and nuclear power. That is the Bavarian model.

Where Thatcher trails behind, he thinks, is in lacking the European dimension. He claims to have told her quite strongly – and here his Finance Minister's hat must have come into it – that Britain must become a full member of the European Monetary System. According to German sources, her reply was along the lines: "I know I'm right, but I'll do it in the end."

Waigel also says that it is not only the German left that is interested in movement in Central Europe. British attempts to maintain the status quo indefinitely are not going down well in the federal republic: a message that was put recently in London by Lothar Späth, the Prime Minister of Baden-Württemberg and another candidate for the succession to Chancellor Kohl.

Waigel is 50. He is still learning the Finance Minister's job, much as Helmut Schmidt had to learn it when he became Finance Minister some years ago. He might make his first international mark at the IMF meeting in Washington in September: his aides say that he will be the dominant Finance Minister in Europe by the end of the year.

Unlike Strauss, Waigel does not challenge Kohl directly: he is seeking to be a partner in the Bonn coalition with the Christian and Free Democrats rather than a rival, but his CSU party is also putting forward policies which are slightly right of centre.

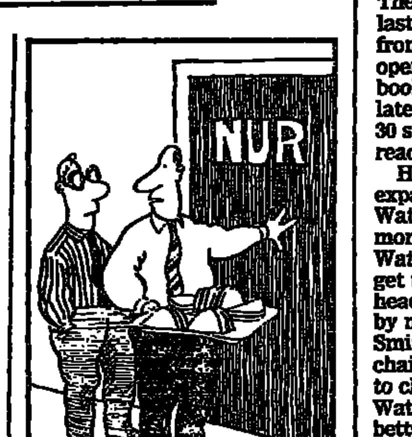
The theory is that while Strauss was around, the non-extreme German right always had him to turn to. When he died, some German conservatives turned to the fringe right-wing parties instead. The aim of the CSU under Waigel is to win them back.

If that happens, Chancellor Kohl's coalition will win the federal elections next year, despite present opinion polls. The economic circumstances, says Waigel, could hardly be more favourable. It is also the case that, if Kohl does win again, Waigel's own prospects will improve still further.

He has all the Bavarian charm – a mixture of peasant and intellectual – including a willingness to tell jokes in English even though he does not speak the language all that well. Would that some British ministers would let themselves loose in broken French or German, smoke a large pipe and wear a funny hat! That's one of the reasons we need a reshuffle.

Cola wars

■ After 29 years in Japan, Pepsico, the soft drinks manufacturer, has managed to capture



"A few more British Rail sandwiches ought to wear them down."

only 6 per cent of the cola market against 93.5 per cent for Coca-Cola. The company is still taking the long view, however. D. Wayne Calloway, the Pepsico chairman and veteran of cola wars around the world, has just visited Tokyo and declared that the strategy is one of guerrilla warfare: chipping away at Coke's share of the market by going from store to store, vending machine to vending machine, and Pepsi will make it in the end.

Back to Smith

■ For a man who deals in words, Tim Waterstone seemed a touch limited in his choice yesterday when describing his feelings about agreeing to sell the chain of book shops which bears his name to high street giant, W. H. Smith. "Thrilled" was the one that came out most often.

One might imagine that the deal was the ultimate "I told you so." Waterstone was sacked by Smith in 1981 when he was chairman of the north American business which had "lost a lot of money," he says. The following year, with his last £6,000 and a £10,000 loan from his father-in-law, he opened the first Waterstone's book shop. Much hard work later the chain had grown to 30 shops with ambitions to reach 100 as soon as possible.

However, the costs of rapid expansion have meant that Waterstone's has been losing money. This time, though, Waterstone, now 50, will not get the sack. Rather he is to head a new company formed by merging Waterstone's with Smith's Sherratt & Hughes chain. And it was Smith's idea to change its shops names to Waterstone's because it is the better brand.

Waterstone is not revelling in the reversal of fortunes. "I suppose I could say 'yah, boo, snubs'," he said yesterday. But he has no intention of doing so. Instead he was "thrilled" that his employees and shareholders are to share in an extraordinary rise in the value of their investments.

Waterstone himself bought most of his shares at 4p and will get a minimum of 480p for them in 1992, and more if the group's profits rise fast. His 23 per cent stake will be worth nearly £10m at the minimum price; he will sell a few shares now, at a price of 350p, to give each of his six children a "small" present.

Heavy policing

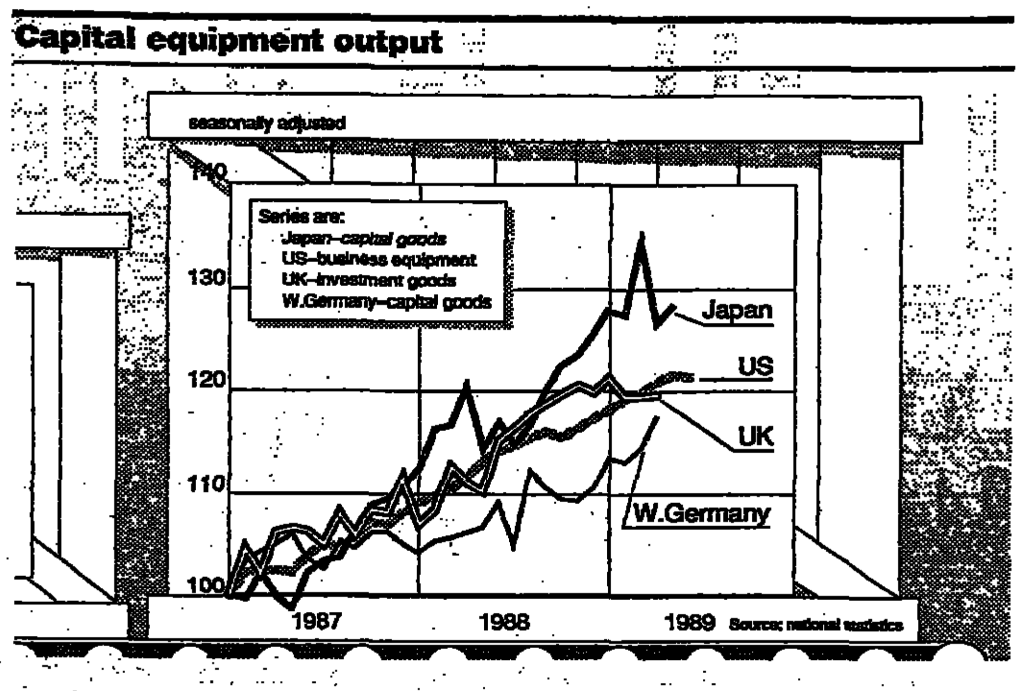
■ London strike story of the day. A colleague was coming to work from Putney, cycling along the banks of the Thames. He was stopped by not one, but two policemen who told him to dismount on the grounds that it was a public footpath. He was let off with a caution.

They are also telling Hungarian-style jokes. What happened to the man who jumped on the Northern Line? He died of old age.

هكذا من الاصل

Nick Garnett reports on a prosperous year for the world's machinery and component makers

An embarrassment of orders



Scrapping for sales in what has been one of the most brutally competitive markets has long characterised business for Europe's forklift truck makers. But in the past year they have been battling over something else – the components that go into their products.

"Most of the lifting masts on forklifts come from one steel maker and we are virtually fighting over supplies," says a manager of a West German lift truck manufacturer. "Demand in West Germany has gone mad. The whole of Europe has gone mad."

Demand for forklifts, and for all kinds of capital equipment that goes into factories, processing plant and warehouses, has gone through the roof in the past 18 months. Purchases of production equipment, from machine tools and textile machinery to specialist plant for chemical processing, increased strongly last year and shows few signs of easing.

For some European suppliers, demand has been overwhelming. The West German machine tool industry's factories are working flat out, some with extra shifts. German suppliers are quoting an average of nine months for delivery of their machines.

Nor is it just European equipment suppliers who are enjoying what has been an almost worldwide investment boom in manufacturing kit. Domestic consumption of machine tools in Japan last year soared 56 per cent in dollar terms to $5.7bn and Japanese machine tool builders increased production by a third as they struggled to cope.

This year, Japanese machine tool plants in Europe have accelerated purchases of locally made parts because of their inability to secure deliveries of some Japanese-made main components.

Bechtel, the US turnkey processing plant contractor, says demand for non-manufacturing plant like power stations and oil platforms remains weak but that is not the story for production facilities. "For chemicals and petroleum processing, the market is strong," says Mr Denis Slavich, Bechtel's chief finance officer. "In the US it is very strong and Europe is now getting stronger."

The world steel industry, which produced almost 10 per cent more steel last year and is likely to produce even more this year, says demand from machinery makers partly contributed to the industry's overloaded blastfurnaces.

Several factors have caused this surge in demand for production equipment. One is a recovery from slow investment during 1987 which was particularly marked in Japan, West Germany and smaller economies such as the UK.

Swollen corporate balance sheets have contributed, together with some cyclical shifts in performance among sectors which buy equipment. Chemicals, steel and the volume car makers, for example, are enjoying buoyant trading conditions and fat profits. On factory shopfloors, more computer-controlled production systems have been installed as a result of much greater confidence that such systems can work and because of the worldwide drive towards more flexible, lower-cost production.

German suppliers are quoting an average of nine months for delivery of their machines

The overall picture is not uniform. For every production facility that is well equipped there are probably far more that remain ill-equipped. In two markets, the US and the UK, there are *tentative* signs that demand for some production equipment is starting to flag.

In some segments, increased purchases have been restricted to certain types of machines. For example, in textile machinery, there was a big jump in sales of spinning equipment last year (mainly to Asia) with sales of some types, such as short and long staple spindles, up by at least 50 per cent. But sales of weaving machinery remained static, according to the International Textile Manufacturers Federation.

Nevertheless, the Swiss textile machinery industry, the world's biggest exporter, raised exports last year by 11 per cent, measured in Swiss francs. This was the biggest increase since the post-recession boom year of 1984 and represented some stored-up demand. Exports from the Swiss industry did not increase at all in 1987 and rose by just 5.5 per cent in 1986.

In most sectors, the clamour for new production kit has benefited most mainstream suppliers. The once reeling lift truck industry has enjoyed a phenomenal resurgence in demand, particularly for electric-powered lift trucks which have taken market share away from diesel and liquid gas-powered machines.

The food processors' need to supply ever wider varieties has helped to drive up sales

Sales of electric forklifts in the four main European economies, West Germany, France, Italy and the UK, rose steadily from a low point in the early 1980s to 54,500 units in 1986. It increased to 73,100 by 1988.

In the first five months of this year though, demand has leapt in two countries, with sales up a third in Italy and a quarter in West Germany. But in the UK, where demand has come mainly from warehousing and distribution rather than factories, sales have started to fall as the retailing surge eases.

In machine tools worldwide, output rose last year by 15 per cent to $38bn, according to American Machinist magazine. "We know this *demand* is hitting all kinds of machine tool makers. Demand is widespread throughout the industry," says Mr Gutmann Habig, head of economics at the West German machine tool association.

Orders from West German industry for metal cutting and forming machines this year is up so far about 90 per cent on last year. West German machine tool makers, which are major exporters, predict a rise in production this year of about a tenth, outstripping their record year of 1985. Even in a notoriously weak market like the UK, demand for machine tools rose 22 per cent in 1988.

In a few supply segments, a number of separate factors have conspired to promote equipment sales. In food making machinery, the rapid growth in the market for ready-made meals from supermarkets, the switch within dairy products to more value-added items like yoghurts and fancy cheeses and the need among food processors to supply ever wider varieties of foodstuffs have helped drive up sales. "General investment levels have certainly increased but it is aimed at different markets with different requirements," says APV, the UK food and drink equipment manufacturer.

In the European chemicals industry, investment rose a tenth in 1987, measured in Ecus, and then increased by 18 per cent last year, according to figures from national chemical federations. This has helped keep demand lively for a range of components, from pumps and valves to pipework.

In the middle of this investment growth, some equipment suppliers have already begun to ponder how long these heated trading conditions will continue. No one expects them to go on indefinitely. Some sectors, such as chemicals and steel, are expecting more difficult business conditions, possibly from next year, and this will eventually feed back to equipment suppliers. The US machine tool industry, which has raised shipments by a third in the past 12 months, has already begun to see its order books dip.

Overall though, machinery makers, used to selling in price-distressed and product-saturated sectors, are enjoying for a change the luxury of equipment-hungry customers beating a path to their door.

Funding of research

How planning threatens British science

By David Sawers

A recent report from the Advisory Board of the Research Councils is only the latest of a series of reports from the Government's scientific advisers which set out an essentially Marxist approach to the organisation of science in Britain. Dr Max Perutz, the doyen of molecular biologists in Britain, has aptly described this latest report as a document that could have emerged from Brezhnev's Politburo. It advocates the amalgamation of the five research councils which distribute government funds in grants for academic research into one National Research Council.

This urge for centralised planning among the industrialists and scientists who man the Government's advisory committees does not mean that the Government has chosen closet Marxists to advise it, but that they are intellectually confused. Because a company has to plan its future products and select the fields of science and technology in which it will undertake research, many industrialists and scientists believe that the Government should similarly plan the research *it finances*; indeed, the proposed National Research Council would be expected to prepare a five-year plan for British science and engineering.

They do not seem to understand that the efficiency of a market economy results from the existence of a multiplicity of decision-takers, some of whom are likely to be right but many of whom will be wrong, just as a central planner might be.

These members also appear to suffer from the delusion that academic and therefore pure scientific research can be managed like industrial development; so they imagine that the five-year plan can contain targets against which annual progress can be monitored. In pure research, progress depends on ideas and observations, and is essentially unpredictable; a scientist will have an objective when he starts his research, but he cannot predict when he will reach it.

This misconception may arise from a failure to recognise the difference between academic science and engineering. Academic engineers cannot *function effectively* without contacts with industry, and one output of their research will be inventions which industry can use. Academic scientists, however, are concerned with the promotion of knowledge for its own sake, which may or may not lead to invention and industrial application at some time in the near or distant future; and they will usually require no contacts with industry to undertake their research. Engineering research is therefore more likely to be predictable, but it would still be naive to imagine that original work can proceed to a plan, as the development of a new product might.

Scientists who are concerned with the financing of research may well feel under pressure to demonstrate that science as well as engineering can produce useful results, and so deserves more support from a government that has expressed a desire to see more exploitable research done in the UK. Industrialists may well imagine that pure academic research can be directed towards useful ends, like the *applied research done inside* their companies. The result is advice that central planning can direct scientists towards useful subjects and so increase the economic benefits from research.

Such advice would, in practice, mean that academic scientists were directed away from pure research to applied research. One result would certainly be a reduction in the output of research measured in knowledge, and consequently a reduction in the standards to which young scientists were educated; another might well be an increase in the number of the most creative scientists who chose to leave this country for places where they had freedom to do the research that they chose. The quality of academic science in this country would therefore decline; and industry might find that the quality of its recruits for applied research and development deteriorated as well.

Such a policy towards science would be the ultimate in "short-termism," to use that fashionable term of abuse, because it would substitute material gain for the promotion of knowledge as the ultimate purpose of academic research. It would thus seek to extend to all the sciences an objective that can properly be applied to engineering, and to extend the objectives of industrial research to academic investigation. By strengthening the commercial motives of academic researchers, it would make them more secretive, slow the spread of knowledge among them and so reduce their productivity in the production of knowledge. (The fortunes which have been made in biotechnology by American academics have weakened the tradition of free inquiry in American science).

The proper division of labour between universities and industry leaves the academics primarily concerned with the promotion of knowledge and the education of the young, while industry concentrates on the production of goods. Market forces can only be applied indirectly to universities, through such influences as the choices of students; but the existence of a multiplicity of decision-makers is even more *desirable than for industrial* projects, because the outcome of research is less predictable.

If a government wished to improve the productivity of academic research, it would therefore seek to increase the number of sources of finance for research, not to reduce them. It may be no coincidence that medical research is one of the most flourishing branches of science in Britain, and is the branch in which there is the largest number of sources of funds for research. The Government should therefore encourage the existing research councils to compete for projects, and to increase the overlap between their areas of responsibility. It should also try to encourage more private sources of funds for academic research; tax allowances may be a dirty term in the Treasury, but this may be a field in which they could prove beneficial. Meanwhile, it may like to consider how to make the management of British science less bureaucratic.

David Sawers is co-author of The Sources of Invention, Macmillan 1958 and 1969.

LETTERS

Getting around London

From Mr Ian McIntyre.

Sir, The problem with Mr Peter Bottomley's statement (Letters, July 13) that "the Government will only develop options which improve conditions for those who live and work in London," is: how will that judgment be made?

The East London Assessment Study identifies problems narrowly, even specifying seven particular points on the road systems in the area. It states that options will "alleviate conditions" at as many of *these locations as possible.*

The premise behind each option involving roads is that an increase in road capacity will "relieve main road problem locations." In other words, additional traffic will not be drawn in to use the new roads.

This seems an extraordinary assumption, given that demand for road space in London is for all practical purposes infinite. Few in London would choose to travel by public transport – something which indeed distinguishes London from other European cities. Also it takes no account of the effect of a Chunnel terminal at Kings Cross – a big increase in journeys by road is predicted.

Those who protest about the road options do so because they believe the Department of Transport is preoccupied by more roads as a "solution" to transport problems, and that if "options" become "proposals" it will be too late. Mr Bottomley, instead of welcoming protesters' comments, has criticised them as "alarmist."

Eight out of the 12 options in the East London assessment study involve destruction of *the Parkland Walk, an area of* metropolitan open land in London boroughs short of green space. *Option four,* for example, whose aim is "to reduce environment problems," summarises its impact on the environment as "property demolition is very high (2,500-3,000 properties) but environmental relief is, on balance, beneficial, particularly at the major problem locations."

Should not that sort of statement alarm everyone who lives in London?

Ian McIntyre,
50 Claremont Road,
Highgate, N6

Private price

From Mr J.B. Freeman.

Sir, Mr Samuel Brittan's Lombard column (July 17) advocates privatisation of the railways because "the hidden agenda of privatisation is to reduce union power."

Any experienced negotiator knows as an axiom that if you wish to change some long-standing practice you have to buy it out.

This is only one of the many elementary errors made by British Rail management. It is nothing to do with privatisation nor with middle class guilt. No experienced industrial relations manager worth his salt (which Mr Toolan appears not to be) would dream of conducting important negotiations like these in the way that the BR management has done.

J.B. Freeman,
4 Drakes Drive,
Northwood, Middlesex

More apathy than sympathy

From Mr Dennis Howson.

Sir, Your front page (July 18), reporting the National Union of Railwaymen rejection of the British Rail pay offer, states yet again that the travelling public "has up to now shown considerable sympathy for the rail workers."

I have yet to find any hard-hit, battered and bruised *commuter who feels anything but* disgust and apathy towards the NUR *attitude* – especially as arrogantly portrayed by the theatrical Jimmy Knapp.

Some commuters have sympathy with railwaymen having to deal with such an apparently inept BR, but let us be clear that the travelling public only want to see less of Mr Knapp and more of the trains.

Dennis Howson,
38 Oakhouse Road,
Bexleyheath, Kent

Humour disputed

From Mr J.W. Budge.

Sir, Your report (Weekend FT, July 15-16) about the rail dispute includes: "But the dispute had its funny side."

For some 33,000 commuters on the Southend to London Fenchurch Street railway line each morning and evening last week (apart from Wednesday, "strike day"), the normal train service was reduced by about 70 per cent because of BR management's decision to run a drastically reduced service. This was despite the fact that on the sister line from Southend to London's Liverpool Street station it was possible to run a near-normal (95 per cent) service.

With such a limited service, Fenchurch Street station became dangerously overcrowded in the evenings, and BR was forced to use the police to avoid a Hillsborough-type disaster. The final frustration for hot and delayed commuters was seeing most of the limited number of trains departing not only with no standing passengers – unusual on a normal evening – but also leaving with empty seats.

In these circumstances I hope you will appreciate that the treatment handed out by BR management and the police was not seen to be in the least bit "funny."

John Budge,
95 Burlescoombe Road,
Thorpe Bay, Essex

Determined to negotiate

From Mr Andrew Sargent.

Sir, West German organisations achieve joint commitment from employee representatives and management towards business by a well established system which ensures that the interests of employers and employees are discussed at works councils and on "supervisory" boards.

Opponents of this system condemn it as "irrelevant," or even "Marxist." But "co-determination," (a principle established by the British, by the way) is the bedrock upon which Germany's economic prosperity has been built.

What matters is not the system, but the principle. The real difference between West Germany and Britain is that industrial relations in the one are regarded jointly as a means of achieving growth and prosperity for all concerned; while in the UK, growth and prosperity are not often on the agenda.

British employers and unions have been beset for years by the same old problems. These include:

- Lack of belief in each other's integrity;
- The view that employees are economic units rather than responsible human beings;
- Ignorance of the meaning of consultation;
- Government interference without equivalent accountability;
- Short term remedies for long term problems.

What is needed is a new approach to workplace employee relations, based on these elements:

- Both sides need to and *can* agree;
- Enlightened self-interest is positive;
- Employees are primarily responsible human beings;
- Human resource management now requires a much more sophisticated range of *skills;*
- The cost of maintaining an intransigent stance towards new values will undermine competitiveness;
- The trade union movement is not going to disappear;
- Capital and free enterprise will not be eliminated.

If we are to continue in opposition to the employment laws of continental Europe (which will inevitably force change) we must urgently re-examine attitudes which at the moment mitigate against positive belief in the possibility of, and the need for, joint commitment towards business success.

Andrew Sargent,
Sargent Minton,
88 Chalkwell Avenue,
Westcliff-on-Sea,
Essex

Kiss and make up

From Miss Wendy Beaver.

Sir, Might I suggest how British Rail could slightly alleviate strike inconvenience?

To claim a refund on tickets bought in advance (which cannot be used on strike days) you have to complete a detailed form. To get it – BR will give no refund without it – you must join the ticket queue. This form should be available outside the ticket booth.

At best, present policy is inept; at worst it deliberately deters commuters from claiming rightful compensation.

Wendy Beaver,
101 Charmouth Road,
St Albans, Hertfordshire

FINANCIAL TIMES
Wednesday July 19 1989

Sandinista revolution is intact. . . at a price

Tim Coone examines Nicaragua's decade of hardship since the overthrow of Somoza

IN A country where you can die at any time from bites of vampire bats, rabid dogs or tiny mosquitoes, it is an achievement to dream about a revolution – let alone make one.

Nevertheless, 10 years ago today a Central American dictator's statue tumbled to the ground to the cheers of a jubilant crowd.

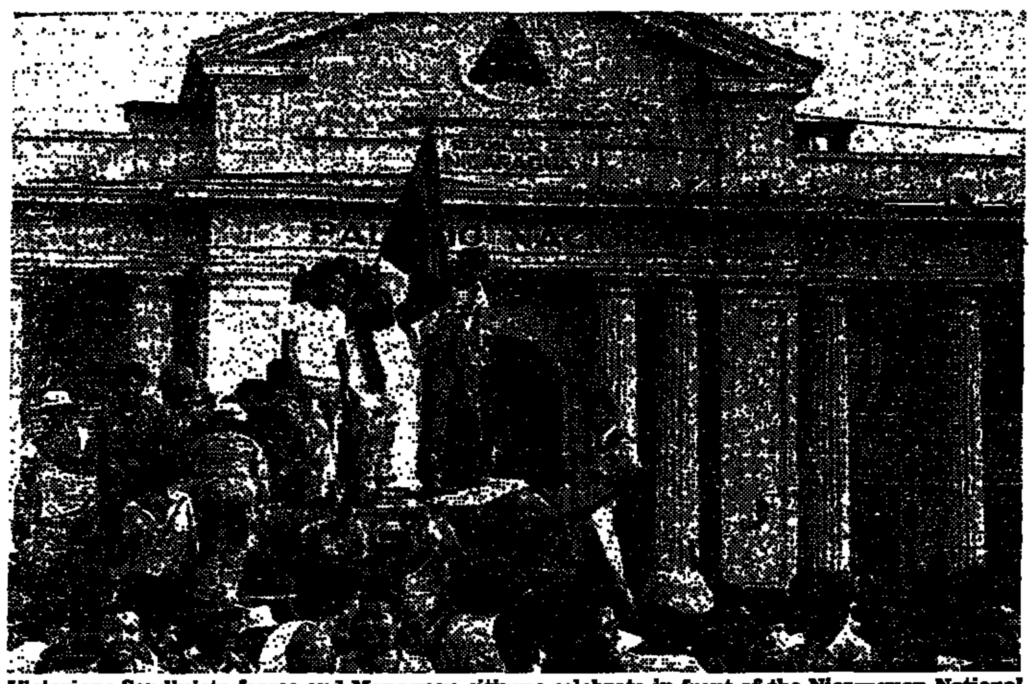
The place was Nicaragua: the dictator was Anastasio Somoza. His 43-year family dynasty came to a dusty end as the victorious guerrilla columns of the Sandinista Front of National Liberation (FSLN) converged on Managua, the capital. After 15 years of fighting in the mountains, the left-wing students who turned guerrillas became governors. To the embarrassment of the US State Department, revolution in Central America had become a reality.

Those heady days of triumph have been tempered by 10 gruelling years in power, eight of them at war with the Contras. These were formed from the praetorian guards of the ousted regime backed by wealthy peasants and big businessmen with US links but who depend for their survival upon a US umbilical cord.

The dead and wounded of both sides amount to 58,000 or 1.7 per cent of the population, according to government figures. By comparison, the US would have fought 20 Vietnam wars to have suffered the equivalent in human losses.

The effect on the economy has been equally devastating. Living standards are now worse than before the revolution. Infant mortality and malnutrition are rising, as average wage levels have plummetted to $15-$20 per month.

About 70 per cent of industry is effectively bankrupt, according to Mr Eduardo Mora, president of the Nicaraguan Association of Businessmen, while exports have fallen to only 30 per cent of their former levels. Trade and credit support,

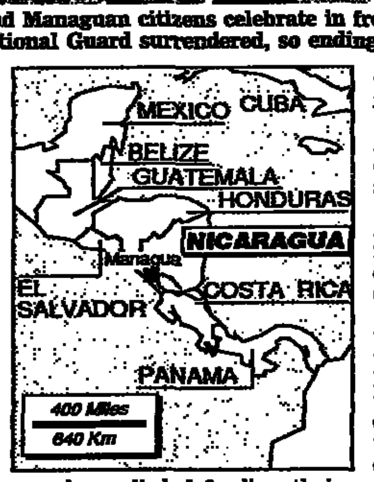


Victorious Sandinista forces and Managuan citizens celebrate in front of the Nicaraguan National Palace 10 years ago, as the National Guard surrendered, so ending the seven-week civil war.

mostly from the Soviet Union, underwrite the economy by some $200 per capita per annum. That adds up to a disaster.

But such a conclusion ignores major social and political progress. Illiteracy was reduced from more than 50 per cent to only 12 per cent of the population in the first year of the revolution. Rural education before 1979 was virtually ignored. The advances in rural health care tell a similar tale. It is the rural teachers and health workers and their new schools and clinics, however, who have been the principal targets of the US-backed Contras.

Some 80,000 landless families, or 20 per cent of the rural population, have benefitted from the post-revolutionary agrarian reform. The land reform co-operatives have likewise been primary targets of the Contras. Almost 3,000 farm-



ers have died defending their land.

On the political front, pluralism is paradoxically flourishing despite the war. All ideologies from retrograde Contra, through to purist Maoist and Trotskyist, are represented by one of the 21 political parties that intend to fight the coming general elections. There is a functioning mixed economy in which private ownership of the means of production still predominates over state-ownership.

Thus, despite their close identification with the Cuban revolution, the Sandinista leaders have chosen a very different course.

Mr Carlos Rafael Rodriguez, the Cuban vice president, wrote recently that "if the FSLN had tried to follow the paths beaten by the Cuban revolution, it would have committed an irreparable error. . . it did not succumb to the temptation of making a prematurely socialist revolution. For those in Nicaragua that favour deeper changes, they have not abandoned them but are awaiting the moment and correct circumstances to put them into practice."

That wait and wartime economic attrition has exposed Sandinista idealism to bureaucratisation and corruption, diseases endemic to most governments after 10 years in power. The lack of correction and arrogance in the face of criticism is symptomatic of institutional deficiency.

But for Dr Sergio Ramirez Nicaraguan, the Vice President, "[Our revolution] opened the perspective for change in Latin America, by coming to power through armed revolution in alliance with other social sectors. The closed model could be left aside. This is a revolution of revolutions."

New statues have meanwhile appeared to symbolise the constant underlying values.

One, a huge iron figure irreverently dubbed "The Incredible Hulk," is of a man with his head thrown back, automatic rifle in one hand pointing to the sky and a pickaxe held firmly in the other. On the pedestal is an inscription: "Only the workers and campesinos will continue to the end" – a narrower alliance than that upon which the Sandinistas came to power.

In 10 years of rule, the Sandinistas have made it clear that the end of the road is a socialist one. But in the age of perestroika, disarmament, green politics and a growing redefinition of socialism throughout Europe and Latin America, today that means arriving there on a pathway of social democracy. Unlike Chile, however, which had the only other governmental experience of a democratic road to socialism in Latin America, the military in Nicaragua stands behind the project.

According to one senior Nicaraguan military officer, the main success of the FSLN in the past 10 years "is that we have been capable of defending the revolution. The object was not a buoyant economy, or big social changes. Everything went for the war fronts." The cost has been terrible but without that all the rest would be as dust.

THE LEX COLUMN

GEC makes new connections

The cynical reaction to the link between GEC and Plessey on mobile phones is that Plessey shareholders should watch out: the more cosy the two companies become, the less the chance of an aggressive takeout price. The less cynical view is that the deal says nothing about the prospects of a bid at all. The two companies learnt from their mistake in not joining up to go for a Telepoint licence. *In this next and much more important generation of personal communicators, they are simply sinking their differences in a joint candidacy which could prove unbeatable.*

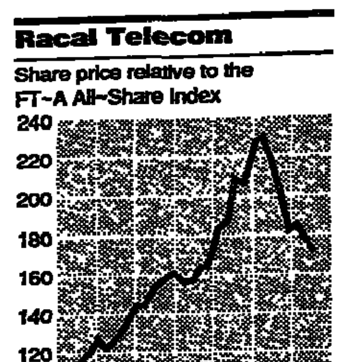
The truth probably lies somewhere in the middle. GEC will doubtless have calculated that it has nothing to lose. If it ends up owning Plessey, it will be the dominant partner in the new consortium anyway. If not, it still needs Plessey's expertise. For Plessey, the benefit is less obvious, but may well have to do with timing. The scale of the new project means that Plessey cannot conceivably go it alone; but neither can it attract another partner with a GEC bid hanging over it. With the Ministry of Defence's deliberations dragging on, Plessey's options are running out.

The next question is where Siemens stands in all this. The formidable presence of BellSouth means the consortium can already call on US expertise and financial backing. But it is doubtless intended that the 20 per cent of the partnership yet to be assigned will go to a partner offering access to Continental markets. Whether this would be Siemens is unclear. If Siemens ended up in effective control of GPT, it remains to be seen how it would view the conflict between being a major supplier to British Telecom and belonging to a venture which could undermine BT's whole position in the UK market.

For a merged GEC/Plessey, getting a licence could be the guarantee of survival as a major electronics company into the next century. For most of its rivals, the implications are correspondingly depressing; but the Racal Telecom share price, at least, has started discounting that already.

Racal Telecom

Share price relative to the FT-A All-Share Index



De La Rue

The token rise in the De La Rue share price yesterday on the news that Du Pont and Fuji Photo have agreed to buy Crosfield – roughly half of De La Rue – underlines the stock market's dilemma in valuing what is left of the company. De La Rue has got a surprisingly good price for Crosfield, whose erratic profit record and ability to consume cash, is the cause of the group's current problems. Yet the planned sale removes the major reason for any bid speculation – the main prop under the current share price.

If it is a done deal, De La Rue's shares should go down, not up. But it would be dangerous to count out an unpredictable operator like Mr Robert Maxwell, *who is De La Rue's* biggest shareholder. He is showing a loss on his investment in De La Rue and the sale of Crosfield to Du Pont/Fuji rather than to Crosfield's main competitor, his own Scitex, presumably removes the main reason for his interest in De La Rue. However, in the absence of mounting a counterbid for either Crosfield, or De La Rue, it is difficult to see how he can exit either gracefully or profitably.

Crosfield is being sold at a 70 per cent premium to net asset value and an exit multiple of 17 times Crosfield's peak earnings. This is a stiff price but there is just an outside chance that Mr Maxwell may be prepared to top the offer and risk the anti-trust problems *in order to prevent two wealthy* giants moving into a market where Scitex has been remarkably succesful. He is in an uncomfortable position. If he does nothing, the bid speculation subsides and so does the value of his De La Rue stake. *Putting the company on a normal market multiple,* suggests De La Rue shares should be £1 below where they are now.

BAT

Among those who have booked a seat for the great BAT carve-up, the oddest is surely GEC. It seems most unlikely that Lord Weinstock is interested in buying any of BAT's businesses, or indeed doing anything other than taking a punt with his company's spare cash. One has to admire the resilience of a company which can assist in the break-up of a group three times its own size, with an earnings record no worse and a share price performance very much better, shortly after being the target of a break-up itself. One looks forward to more newspaper articles from Lord Rees-Mogg on the sanctity of great companies, as at the time of the Metsun bid.

Undertakers

Funeral directing may not have been what the EC had in mind when it set about developing a single market in services, but the three way link between two modest British undertakers and a French one creates a good approximation of the ideal European company of the future. There are two boards: a predominantly local one to run the British operations, and to make sure that the promised savings are made from putting Kenyon and Hodgson together, and a largely French one charged with building a big international group that will manage *funerals all over the world.*

The general idea seems to be that the British and the French make a better and more profitable job of burying people than anyone else. In most countries the undertaking business is apparently not just backward, but is also highly fragmented; and given the high level of fixed costs, there must be plenty of good opportunities out there for someone who understands the business. While yesterday's sketchy financial information made it unclear *who will pay for this* great thrust overseas, the presence of Lyonnaise des Eaux - which has already invested heavily in British water and is also dabbling in waste - is encouraging.

On a more parochial note, the apparent inability of the UK accountants to fit together the balance sheets of Hodgson and Kenyon, thanks to Hodgson's dubious decision to add back previously written-off goodwill, is further proof that the mess over intangibles is urgently in need of a solution.

EC company law plan could be blocked

By William Dawkins in Brussels

CONTROVERSIAL plans for a European company statute yesterday met a potential blocking minority of European Community governments in the first formal ministerial response to the scheme.

West Germany, Britain and the Netherlands gave varying sceptical receptions to the plan, presented by Mr Martin Bangemann, Internal Market and Industry Commissioner, to a meeting of trade and industry ministers.

It would allow cross-border mergers to incorporate as EC companies rather than having to choose the corporate laws of either of their countries.

Taxable incomes across borders could also be consolidated, a privilege not open to conventional international groups. The scheme would only be available to companies that adopted one of three models of worker consultation.

The scheme is a personal priority of Mr Jacques Delors, the Commission president, in his efforts to inject more social policy into the EC's internal market plan, and a bête noire of Mrs Margaret Thatcher, the British Prime Minister.

Mr Francis Maude, Under-secretary of State at Britain's Trade and Industry Department, voiced unhappiness at the Commission's tactic of planning to put the statute to a qualified majority vote. Britain would then find it harder to block the scheme, given that the blocking minority could easily fall apart.

London believes that worker representation should be left to national laws and that the plan is of limited value to business. The Netherlands also questioned the industrial usefulness of the scheme.

West Germany's anxieties, however, are over the Commission's use of majority voting, a tactic which tends to make it easier for the Brussels authorities to get their own way in the Council of Ministers, the member states' main decision-making forum.

However, in other ways, Bonn welcomes the scheme as useful protection against competition from low-wage companies in member states with poor industrial democracy, so-called social dumping.

The argument, which must be resolved in successive ministerial meetings over the coming months, turns on whether the company statute is a pure internal market proposal, which only needs majority support under EC voting rules.

Britain and West Germany suspect it is about social policy and tax, both areas needing unanimous ministerial decisions.

Jaruzelski says he will stand for President

By John Lloyd in London and Christopher Bobinski in Warsaw

AN END to the immediate Polish political crisis appeared in sight yesterday, as General Wojciech Jaruzelski, the Communist Party leader, announced he would, after all, stand today for election as President.

It also became clear that those activists within Solidarity who have pushed for the movement to form the next Government have acknowledged that theirs is a minority view.

These developments should lead to Gen Jaruzelski's election by Parliament, which is still dominated by the Communist Party and its allies and to the appointment by him of a reformist, although Communist-dominated, Government.

However, the General has said he is "unsure" of winning sufficient votes and has again proposed *Gen Czeslaw Kiszczak*, Interior Minister, as an alternative candidate.

Meanwhile, Mr Adam Michnik – the Solidarity leader most enthusiastic about sharing Government power with reform-minded Communists – has accepted that the proposal has little support.

In an interview with Le Monde, the French newspaper, Mr Michnik followed Professor Bronislaw Geremek, parliamentary leader of the Solidarity group, in predicting a meeting between President Mikhail Gorbachev and Mr Lech Walesa this year.

On the agenda of such a meeting, he said, would be "the de-Stalinisation of relations between our two countries, their perestroika, abandoning of dogmas and the era of dictates."

Jaruzelski's hat in the ring, Page 2

Soviet miners stay on strike despite offers

Continued from Page 1

or absorbed as another government subsidy.

Iron and steel plants, and several power stations, have reported that coal stocks are running critically low and one steel plant reported that it was reducing production.

● Mr Valery Legachev, a spokesman for the regional strike committee in Kuznetsk, said the miners were continuing their walkout because Mr Slyunkov had made "only general statements," not concrete proposals, AP reports from Moscow.

○ The industrial unrest has been aggravated by a resurgence of ethnic unrest, in the Black Sea region of Abkhazia, Reuter reports from Moscow.

Since the trouble involving Abkhazians and Georgians broke out on Saturday, 16 have been killed. A party official in Sukhumi, the regional capital, *said a state of emergency and* curfew were being introduced from yesterday.

Tables turn in UK rail dispute

By Michael Cassell and Fiona Thompson in London

THE UK Government and British Rail yesterday rounded on the National Union of Railwaymen for narrowly voting to go ahead with its fifth 24-hour strike after rejecting an improved 8.8 per cent pay offer.

As commuters struggled through heavy traffic jams, particularly in London, ministers and British Rail executives viewed the rejection by the NUR executive as an opportunity to mount an offensive over the dispute. Ministers believe that after growing public criticism of BR's handling of the dispute, the NUR rejection of the offer has already lost it public sympathy.

Mr Paul Channon, Transport Secretary, described the NUR action as "absolutely amazing" and against the long-term interests of the rail workers.

In Parliament, Mr Norman Fowler, Employment Secretary, called on the NUR to abandon a "deplorable" and "incomprehensible" act and to accept BR's 8.8 per cent offer on the Railway Staff National Tribunal's recommendation.

In response to calls for a ban on strikes in the public sector, Mr Fowler said the present review of laws covering industrial action, including public sector strikes would lead to proposals "in due course."

On the roads yesterday, there was greater congestion than during previous rail strikes. The situation was exacerbated by a 24-hour strike on London Underground and disruption of some bus services.

Details, Pages 8 and 9

US trade deficit widens, dollar falls

Continued from Page 1

The surge in capital goods reflects large expansion plans in foreign-owned (mainly Japanese) plants in the US, which will displace imports when they come on stream.

Exports, at $30.47bn, were 0.9 per cent down from the high April figure but still substantially higher than in any other previous month. The heaviest falls were in manufactured goods. The pattern of shipments appears to have been distorted by dock strikes in the UK and some other US export markets, which caused exporters to ship early and thus boosted the April figures at the expense of May.

Over the year as a whole it is clear that import demand is no longer consumer-led. Car imports so far this year have risen only 3.8 per cent from a year earlier and consumer goods 6.7 per cent. By contrast, industrial suplies (which include oil) are up 9.2 per cent and capital goods by 11.1 per cent. Exports in these categories are even more buoyant, with industrial supplies up 11.8 per cent and capital goods 14.8 per cent.

At the New York midsession, all markets were trading steadily just above their lows. The dollar was quoted at Y141.45 and DM1.8915, just above its morning lows of Y141.05 and DM1.8880.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	26	79	Dubrovnik	F	26	79	Malta	S	29	84	Rhodes	S	27	81
Algiers	S	34	93	Edinburgh	F	20	68	Manchester	F	21	70	Rio de Jo	F	24	75
Amsterdam	F	17	63	Faro	S	31	88	Manila	R	27	81	Rome	S	27	81
Athens	S	30	86	Florence	S	27	81	Melbourne	F	11	52	Salzburg	C	14	57
Bahrain	S	39	102	Frankfurt	C	20	68	Mexico City	F	24	75	San Francisco	F	14	57
Bangkok	F	33	91	Funchal	C	23	73	Miami	R	26	79	Seoul	F	30	86
Barcelona	S	29	84	Geneva	S	23	73	Milan	S	25	77	Singapore	F	29	84
Beirut		–	–	Gibraltar	C	26	79	Montreal	S	19	66	Stockholm	F	16	61
Belfast	S	20	68	Glasgow	S	21	70	Moscow	F	18	64	Strasbourg	F	23	73
Belgrade	S	24	75	Guernsey	S	22	72	Munich	R	15	59	Sydney	C	12	54
Berlin	R	13	55	Helsinki	T	13	55	Nairobi		–	–	Taipei	F	33	91
Biarritz	S	28	82	H. Kong	C	27	81	Naples	F	26	79	Tangier	S	32	90
Bombay	F	29	84	Innsbruck	C	17	63	Nassau	F	33	91	Tel Aviv	S	31	88
Bordeaux	S	30	86	Inverness	C	17	63	New Delhi	F	34	93	Tenerife	S	27	81
Brussels	C	17	63	Islamabad	C	34	93	New York	S	22	72	Tokyo	C	26	79
Budapest	F	23	73	Istanbul	S	27	81	Nice	S	26	79	Toronto	S	21	70
B. Aires		–	–	Jakarta	C	32	90	Nicosia	S	31	88	Tunis	F	32	90
Cairo	S	33	91	Jersey	S	26	79	Oporto	S	26	79	Valencia	S	30	86
Cape Town	R	11	52	Jo'burg	S	6	43	Oslo	F	17	63	Venice	S	26	79
Caracas	R	28	82	Lima	C	19	66	Paris	F	25	77	Vienna	C	17	63
Casablanca	S	33	91	Lisbon	S	32	90	Peking	C	28	82	Warsaw	C	15	59
Chicago	F	21	70	London	F	22	72	Prague	F	16	61	Washington	F	22	72
Cologne	C	17	63	Los Angeles	C	19	66	Reykjavik	Dr	9	48	Zurich	F	20	68
Copenhagen	S	18	64	Luxembourg	F	18	64								
Corfu	F	30	86	Madrid	S	36	97								
Dallas		–	–	Majorca	S	31	88								
Dublin	S	20	68	Malaga	S	28	82								

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Illegal ivory destroyed in Kenya

Continued from Page 1

cover the event and public relations consultants were flown from Washington to mastermind the operation.

President Moi said before the bonfire was lit: "The ivory, which is worth Ksh60m, will go up *in smoke in this animal* sanctuary to signify our commitment to the cause of wildlife conservation both within and outside our borders.

"I hope our action will help to persuade others to appreciate the urgent need to take drastic steps to halt the wanton slaughter of elephants by declining to trade in ivory and its products."

Over the last 10 years Kenya's elephant population has been cut from more than 65,000 to 17,000 and heavily-armed poachers have battled *poorly supplied wardens and* anti-poaching units.

Wildlife experts have claimed that the inability to combat poaching during the last decade has stemmed largely from a lack of political will and widespread corruption among officials in the government and military.

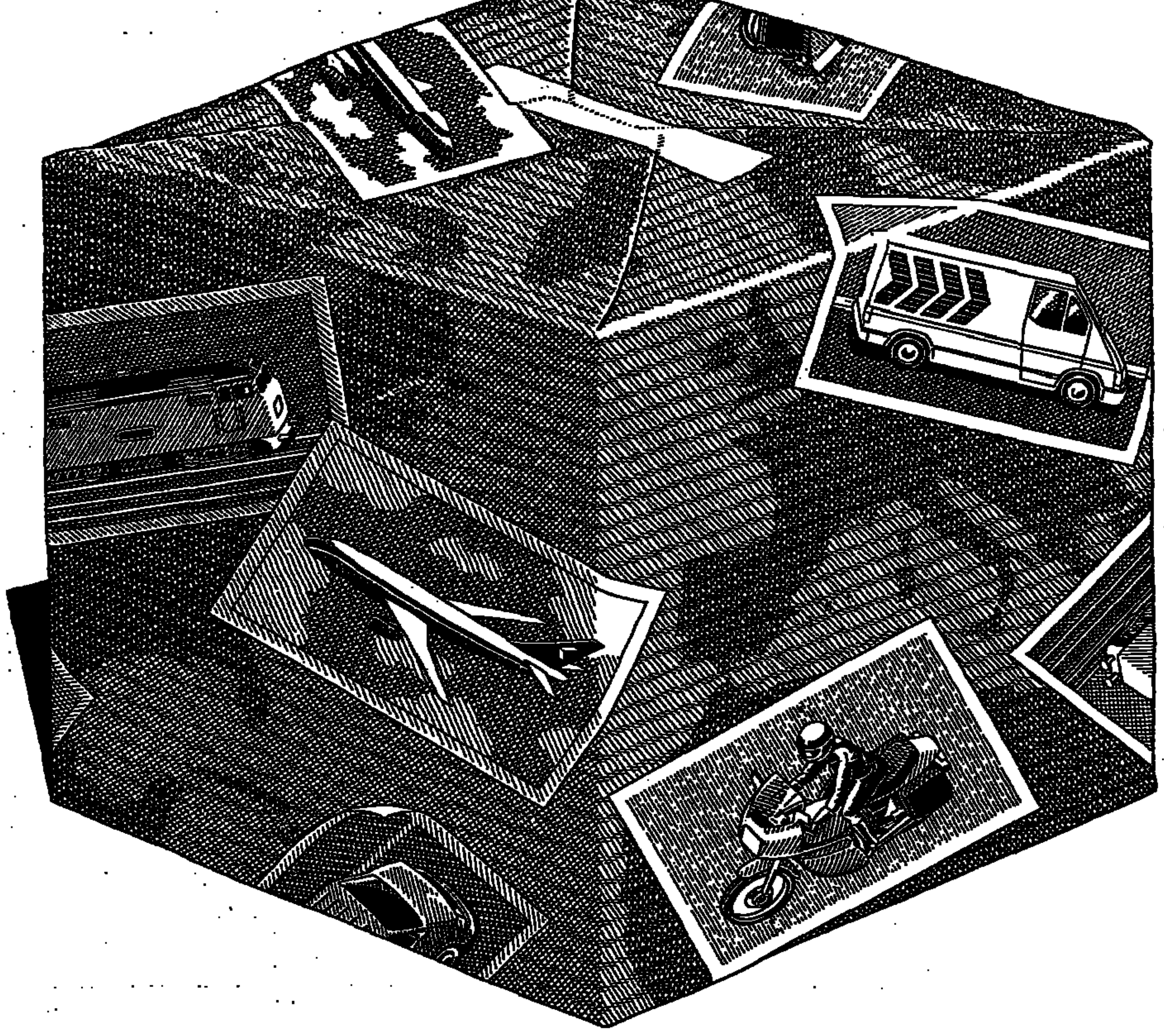
In the last nine months, however, the Government has shown a determination to tackle the problem seriously.

Twenty poachers were killed in June after a shoot-to-kill policy was implemented. Elsewhere, *the Minister of Tourism* and Wildlife was replaced and, three months ago, the internationally-acclaimed palaeontologist, Mr Richard Leakey, was brought in to head the Wildlife Department which he is to reorganise and which will become semi-autonomous of government.

SECTION IV

FINANCIAL TIMES SURVEY

A long-predicted shake-up in the domestic and international courier and express industry is taking place as big operators prepare for the expanding European market. Costs are rising and more mergers and acquisitions lie ahead. **Kevin Brown** reports.



Courier and Express Services

A bitter fight for higher volumes

AFTER several years of rapid growth, the European express and courier industry is in a state of flux as the principal players reposition themselves for the next stage of the game.

According to industry estimates, the European market is still growing at between 20 and 40 per cent a year, slightly slower than a couple of years ago, and is now worth between £1bn and £1.5bn.

But the cost of staying in the market is rising, and there has been strong pressure on margins as companies fight for the ever higher volumes needed to cover their high fixed costs.

The result has been a wave of mergers and acquisitions as some of the larger companies try to buy volume by snapping up the smaller fry.

Other companies have diversified into value added activities such as contract distribution in search of the profits and cash flow to keep them in the parcels business.

All this is happening against the background of the increasing Europeanisation of the market in advance of the completion of the European Community single market in 1992.

The cost of providing an integrated service throughout Europe is high, partly because of the extensive physical infrastructure required, but also because of the information technology needed to provide a high quality service.

Given all these factors, most industry observers expect a major shake-out to gather pace over the next couple of years as some of the small and medium companies find their volume growth too small to finance the necessary investment.

Most agree that there will be room for regional operators, perhaps covering a single European Community country, and for niche operators, such as those specialising in the two and three-day markets.

However, the market will almost certainly continue to be dominated by the big four companies – United Parcel Service (UPS), DHL, Federal Express and TNT – which have the financial, technical and sales back-up of worldwide operations.

The big four have indicated that they are determined to remain as major players in the European market, but they appear to be adopting radically different strategies.

In recent months, the most active has been UPS, the world's biggest carrier of small packages, which was also the last of the big four to move into Europe.

After watching the growth of the European market from a distance for several years, the conservative UPS management finally took the plunge late last year when it bought Atlasair in the UK, followed by IML Air Services, a major UK-based courier with a worldwide network.

Subsequently, UPS acquired half a dozen companies throughout Europe, effectively buying the basis of a network to be repainted in its brown and gold corporate colours. In addition, UPS is investing heavily in its European hub at Cologne.

"They have obviously decided to take Europe seriously, and they are throwing a lot of money at it. These acquisitions will not have been cheap," says Mr Martin White, a consultant who follows the industry for accountants Coopers and Lybrand.

DHL's strategy has been harder to fathom, but the company has ended the arms length relationship which formerly existed with Elan International, its parcels subsidiary, and merged the company back into the group's mainstream operations.

Analysts say DHL probably had difficulties in building sufficient volume through Elan, and has decided to refocus its activities on its international courier business, in which it is the world leader.

TNT, the Australian transport multinational, has also been on the acquisition trail, but principally to fill in gaps in its existing European network, notably in Spain, through the purchase of Unitransa, and Italy, where it bought Traco.

TNT also acquired Air de Cologne from Scandinavian Airline Systems and XP Express from KLM Royal Dutch Airlines.

However, in both cases the driving force was the desire of the airlines to get out of the expensive parcels business to concentrate on their core activities.

The central thrust of TNT's strategy has remained the same for several years – providing a full range of high quality services at competitive prices to build volume and put pressure on competitors.

Federal Express, the last of the big four, seems to have decided to follow a twin track strategy which both keeps it in the parcels market and expands its existing distribution interests.

FedEx has made a couple of acquisitions in the mainstream parcels market, notably Home Delivery Services, from Littlewoods, which will help put FedEx second behind Royal Mail as a carrier of small packages in the UK.

FedEx has also acquired the US cargo airline Flying Tigers, and plans to use some of that airline's capacity to provide a service between Europe and the Far East.

However, it is no secret that FedEx has experienced difficulty in generating sufficient volume in its European parcels business, and has suffered tight margins.

FedEx is fortunate, however, in having a second string to its bow in the form of the Systemline contract distribution business inherited from the Lex Group, the UK acquisition which brought the group to Europe in a major way several years ago.

FedEx is putting a substantial effort into building up Systemline, especially by extending to the division its exceptionally good information handling skills.

Meanwhile, it is becoming clear that the deregulation of the EC transport market as a result of the completion of the single market will probably lead to a significant increase in demand for distribution skills, especially at the express end of the market.

This is in contrast to the forecasts in the Cecchini report on economic integration, which suggested that the major boost to industry would come through reduced frontier delays.

Mr Alan Watson, managing director of TNT Express Europe, is one of a number of leading figures in the industry who now believe that savings in inventory costs, through rationalisation of manufacturing and stock holding, will be far more important.

This means there will be increased demand for the specialised skills of the distribution companies who can maintain supplies to a manufacturer or retailer's Europe-wide markets from a reduced number of distribution points.

However, users of freight services are likely to reduce the number of distribution companies they use, and will probably demand faster and more sophisticated services to stay ahead of their competitors.

For the express companies, this means providing an integrated air/road system, concentrating on same day and next day deliveries, especially for high value, fast moving commodities.

If express companies are to keep up in this tough market place they will have to invest large sums in information technology, says Mr Watson.

Mr Reg Bailey, a partner in the accountancy firm Peat Marwick McLintock who specialises in the courier and express industries, says the key to the developing European market will be quality of service.

"People who use express services do it because they need to have the goods at the destination quickly, but they also need to be assured that the goods will arrive when they are supposed to.

"If companies can guarantee not only to deliver on time, but to track the goods throughout their journey, right across Europe, they will have a major advantage over their competitors.

"But to do that they will have to make a major investment in information technology and electronic data interchange, which will become increasingly important as common technical standards emerge," says Mr Bailey.

The implications of all this are serious for smaller companies which are already finding it hard to achieve sufficiently high volumes to cover the costs of existing equipment.

"The importance of volume is so enormous that it is difficult to see any medium-sized players surviving as pan-Euro-

Continued on Page 9

CONTENTS

Illustration: Robin MacFarlan
Editorial production: Roy Terry

Anne Hunter reports on Royal Mail Parcels 18 months after achieving autonomy

Separateness is strength at home and abroad

EIGHTEEN months ago, major restructuring within the Post Office resulted in the formation of four distinct operating divisions – the National Girobank, PO Counters, Royal Mail *Letters* and *Royal Mail* Parcels. Under its new managing director, Mr Nick Nelson, formerly of DHL, RMP is now an autonomous division controlled by its own management board.

In the face of persistent challenges from the likes of TNT, RMP continues to dominate the UK express market by a wide margin while its international strength in tandem with newly-formed working agreements with other like-minded postal authorities, is limitless. In the year 1987/88 RMP carried more than 250m items and achieved a profit of £39m. Ninety-five per cent of that volume and revenue was generated by the business-to-business sector of the market.

The range of services include Datapost – with same-day *delivery round London* and some other UK cities and delivery guaranteed by 10am the morning following collection with pick-up times as late as 5pm in most areas.

Super 24 – a new service launched this year – provides guaranteed delivery by the close of business the day following collection while Super 48 is – as the name suggests – a two-day delivery service. A Standard Service offers UK domestic delivery, three days after despatch.

As the backbone of the RMP service range, Standard now incorporates Trakback for *its* contract *business* customers who, for a fee, can now receive confirmation of delivery.

Both the "Super" services bring a free telephone delivery confirmation facility with inclusive loss or damage insurance up to £1,000 per item and *moneyback guarantees* on failure of delivery within the agreed timescale. Datapost has a higher insurance cover of £5,000 per item plus £100 - £10,000 for consequential loss insurance.

The three premium services *are* geared to items up to 30 kg while Standard service provides for higher weights. Using Standard, shipments can travel either via Direct Bag up to 25 kg per parcel with no limit on the number of parcels or via MATES (Mobile All Purpose Trolley Equipment) for consignments up to 364 kg, and there are also pallets for consignments up to one tonne.

Following two years of high Datapost growth with investment and expansion in both UK and International Datapost, Royal Mail Parcels is seeking new ways of securing its supply of essential aircraft capacity, particularly for its nightly domestic Datapost traffic. After years of relying on chartering commercial airline capacity, RMP is examining proposals on the formation of a joint venture *company between RMP* and JEA Jersey European Airways.

Operating in excess of 50 flights a night in the UK alone, RMP has become aware of its increasing vulnerability in the face of a growing scarcity of available night-time freighter capacity.

"*We are highly reliant on* this capacity," explains Mr Nelson, "and we have therefore looked at the feasibility of linking up with the private sector

In the face of many challenges RMP still dominates the market

through a joint venture, as a means of providing capacity for our operation at the same time as giving us greater security of tenure." A final report on the formation of the joint venture company is due in July when a decision will be made.

This will not be the Post Office's first working association with the private sector. In 1988, the Royal Mail appointed Securicor as the first licensee for Airstream, an international bulk mail service.

Handling more than of 36m items of mail a year, Airstream was launched initially to large *companies for single postings* of more than 2 kg of international airmail letters.

In linking up with private companies such as Securicor, Royal Mail extended the Airstream reach to meet the needs of smaller companies who deal with Securicor which in turn, collects and amalgamates the *international airmail letters* before passing them on to the Royal Mail Airstream network.

Moving into its stride as an autonomous division, Royal Mail Parcels in 1988 launched an aggressive marketing campaign in the face of increasing *competition from the "new* wave' express operators. However, progress was severely impeded by the 1988 postal strike which dealt RMP a crippling blow.

Admitting that the initial effects of the strike on the RMP operation were severe, Mr Nelson says: "First and foremost, it gave our customers the opportunity to 'feel' and experience the competition."

In spite of this, he claims that although it has taken until the beginning of this year "the recovery rate is flowing smoothly and our current year on year growth rate is now above 1988 – which means we have recovered."

One of the major effects of the strike, however, was the loss of confidence factor so that while customers may be *returning to RMP for some ser*vices, there is high resistance to putting all the eggs in the RMP basket again for fear of recurring strikes.

In a recent letter to the Union of Communication Workers, Mr Nelson highlighted the dangers for RMP in its continuing high degree of *dependence on other post office* businesses.

In a frank warning he advised that Royal Mail Parcels had lost the confidence of its customers and that, without the guaranteed provision of reliable, uninterrupted service, it would lose out on the business to business front - altogether.

This situation has, more than anything else, opened the door for the likely adoption of the proposals embodied in a study document currently in circulation within the Post Office "mill", which would, if approved, effect a further restructuring to separate RMP completely, from the Letters Division with which it still shares many systems.

Arguing the case for simplifying the RMP operation to achieve higher standards of service quality and reliability, the Study Document, according to Mr Nelson, "is part of our attempt to respond to customers' needs.

"We recognise for example, that Parcels' customers require *products that are not necessarily aligned* to those the Post Office offers."

He gave the example of RMP's long-established and vast, mail order, home delivery market, which in its increasing sophistication, is fast outgrowing the abilities of the Post Office and its "postie" delivery *system*.

If separated from letters, the RMP aim would be to establish its own independent dedicated network to bring end-to-end

Progress of RMP was severely impeded by the 1988 postal strike

control and flexibility to meet the customer needs.

While the formation of a discreet parcels division would enable RMP to tailor services more specifically to requirements, the move is nevertheless a political hot potato with the unions understandably concerned that a further restructuring, splitting parcels away from letters into a totally separate division, would leave Royal Mail Parcels perfectly platformed for privatisation.

While RMP has continued to refine and expand its domestic service range, international development has escalated rap*idly over the past three years.*

In 1987, the main European Postal Authorities formed a joint venture Express *Mail* Service company – EMS, in Brussels, to handle their international express mail operations. Datapost EMS was a founder member of this new company.

Since then, in the face of increasing competition from the private sector and in the knowledge that international standards had to be agreed, another new company, called IPC, has been formed.

Funded and supported by the Postal Authorities of the UK, all major European countries, Australia, Japan, Canada and the US, IPC's prime task is to take over the management and development of EMS and its Brussels hub which provides the air services used extensively by International Datapost EMS and equivalent services in other countries for international express services.

Other IPC key tasks include the monitoring of services to ensure that quality meets preset standards and that products are harmonised throughout all member countries. In *May* this year, *Royal Mail* Parcels became the first Postal Authority to sign a partnership agreement with IPC.

Other founding members have followed and they are confident that IPC will appeal to many more international *postal authorities. By signing* the agreement, members are committed to meeting set service standards and their performance will be monitored. *If* they fail, IPC reserves the right to turn to the private sector as alternative for carriage, in a particular market.

For its part of the bargain, IPC, as the administrator, oper*ator and quality control* body, must also guarantee its service standards and cost levels.

While the control and harmonisation of EMS should not present too many problems as it is already treated separately by those postal authorities operating the service, *IPC will* face a far more daunting challenge when it enters Phase 2 in its development. It will then take on the task of standardising the international tracking and tracing systems for members' Standard International parcels services, *to ensure* compatibility in all member countries.

While accepting that this will force Royal Mail Parcels *into* releasing some of its "sovereignty", Mr Nelson is happy enough to swallow that inevi*tability to benefit from* the advantages the IPC system brings.

"We already have a substantial share of the international express freight market as well as a worldwide operational network for our distribution ser*vices*," *said* Mr Nelson. "What this agreement does is build into that, an improved tracking, quality control and research capability which, we believe, will match anything else on the market.

"In a sense, it is harnessing the strengths of the international postal community to ensure the highest quality of service for Royal Mail Parcels."

Phillip Hastings sums up factors governing the selection of company fleets

Finance governs the choice

FOR the majority of people, the most visible aspect of courier/express industry services are the vehicles and motorcycles used to undertake collection and delivery work.

As a result, that equipment tends to become a marketing tool as well as an operational one, with company logos boldly proclaiming the name of the operator to existing and potential customers.

Decisions about fleet selection should theoretically, therefore, be based on detailed and objective assessments designed to spotlight the optimum equipment for the operations involved and also generally create a good impression of the company. However, in practice a fair degree of subjectivity tends to creep in, certainly among the medium and smaller operators.

Certain basic criteria have to be met, of course, but after that the choice of vehicle or motorcycle tends in many cases to come down to one of finance – for example, which dealer will offer the best terms – or the personal preference of the fleet/operations manager and drivers.

"During our early days, the thing which dominated our vehicle purchasing policy was the availability of finance but now we are better established we are looking much more at the quality and performance of different vehicles. For example, the latest vehicles we have acquired, through contract hire, are Mercedes 7.5-tonne vans," said the chairman of one medium-size UK domestic express parcels service operator.

"In my experience, there is generally little to choose between the higher quality vehicles, and the decision on which type to go for tends to come down to the experience of the local managers most closely involved with running them. "They might be a little subjective in their assessment but if they are happy that the vehicles can do the job, then so be it."

Reliability and economy of performance are factors influencing the choice of motorcycles

Often, the first decision which a parcels operator has to make is exactly which of the many available methods of fleet acquisition to opt for.

With motorcycles, most operators either buy the bikes themselves and run a regular fleet replacement programme or employ owner-riders who have to sort out their own machines. Where vans and larger vehicles are concerned, though, the method of fleet acquisition can vary quite considerably. Many operators still opt for traditional outright purchase, using either their own cash or borrowed funds, but other options open to companies which are more cautious about spending cash include hire purchase, rental, financial leasing and contract hire.

Perceived advantages of using the cash purchase method of fleet acquisition include lower financing costs and, for cash-rich organisations, flexibility in terms of vehicle choice and freedom of operation for the fleet.

Against that, there are a number of other cost factors which have to be taken into consideration. Chief among

Many operators still opt for outright purchase, using either their own cash or borrowed funds

them is the impact on corporate cash flow.

An alternative to outright purchase is financial leasing which involves the lessee paying a rental for vehicles which he never actually owns. The rental pays the lessor's capital cost plus interest and profit over the period of the lease. As with loans and hire purchase, costs such as maintenance and insurance are retained by the lessee.

Operating leases and contract hire are based on the lessor or contract hire company acquiring the vehicles, predicting the residual value of the vehicle at the end of the fire period and charging a rental which reflects the predicted depreciation over that period, the interest, the cost and the profit.

Contract hire is basically a form of operating lease which includes extra features such as maintenance, fuel and tyre costs, fleet management and even, in the case of commercial vehicles, the provision of drivers. Such arrangements can significantly reduce user companies' administration time and costs. Among other major advantages is that vehicles can be financed off-balance sheet.

Fitting in with all the other methods of vehicle acquisition is rental. The often volatile nature of express industry operations, with strike action by postal workers, for example, and seasonal peaks generating sudden upsurges in traffic, can cause express operators to turn to short-term rental of vehicles to meet peak demands.

A typical express company approach to the subject of fleet acquisition was outlined by Mr Larry Peers, operations manager of Surrey-based express company Parcel Link. "We basically lease-purchase our vehicles and at the moment we have a fleet of around 32 Volkswagens and Mercedes. However, we also use short-term rental to supplement those at peak periods," he said.

In selecting vehicles, many factors, not necessarily compatible, have to be taken into account. That can mean cases a compromise in many cases. For example, drivers tend to prefer vehicles with more than one access door to allow easier loading/unloading but that can diminish security.

"For vehicles operated in London, it is useful to have side-door loading capability because of the traffic problems – vehicles often have to be parked in fairly confined spaces which means it can be difficult getting parcels in and out of the back of a van," said Mr Peers.

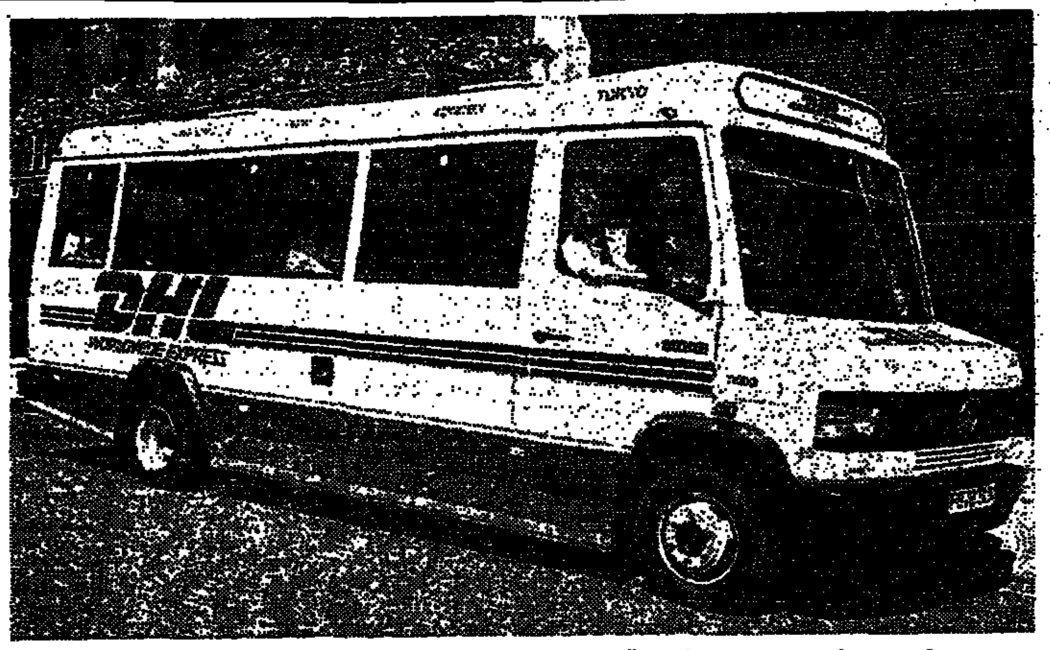
The same considerations have influenced the fleet choice of London-based courier company Speed Couriers, which in addition to a large fleet of motorcycles also operates 25 vans, mainly Peugeot Talbots and Volkswagens, which have both sliding side doors and rear access. Other important features, said Mr Brian Taylor, sales manager, include reliability and economy of performance.

Similar factors have to be taken into account by companies operating their own motorcycles. City Link Transport, for example, has *standardised its now 87-strong* London courier division bike fleet (the company also operates 17 vans in the city) on shaft-driven Kawasakis, mainly GT550s. Supporting those are half-a-dozen smaller Honda 125s which are mainly *used for training new riders.*

To maintain efficiency and reliability – the Kawasaki bikes cover an average of 150 miles a day – the motorcycles are replaced with new machines about every six to nine months. Bikes cost around £2,000 each but by running a regular replacement programme, City Link is able to recoup good resale prices.

"We switched to the Kawasakis for our London operations because we found that chain-driven bikes tended to keep breaking down with all the wear and tear they received from stop-start operation. That is less of a problem in our provincial operations where the bikes tend to undertake longer runs. Generally, the most important features for us when selecting motorcycles are reliability and quietness, followed by economy of performance," said a spokesman for City Link.

Ten of City Link's London motorcycles have now also been equipped with trailers *specially-adapted to provide* valuable additional capacity over and above the standard motorcycle panniers.



Jam-buster: a team bus, acting as a travelling "sortation" centre, accompanies couriers

OPERATING PROBLEMS

New ways to beat traffic congestion

WORSENING traffic congestion in major cities such as London and Tokyo is forcing courier/express companies to look at new ways of running their local collection and delivery work.

With the number and size of consignments steadily increasing, courier/express operators are having to employ more and more vans and larger vehicles to move consignments between their own depots and customers' premises.

However, the operators claim, vehicles are increasingly being held up in traffic jams for long periods, making it difficult and expensive to maintain a good pick-up/delivery performance.

Adding to those problems is the fact that in London, for example, vehicles are issued with parking tickets and even clamped while the drivers are away making pick-ups and deliveries. The latter is a particular problem for express *operators because it can mean* a vehicle is immobilised for several hours.

Latest attempt to try and ease that situation in the UK comes from DHL International which this month plans to introduce an operation that *involves using travelling sorta*tion centres, known as team buses, and accompanying pedestrian couriers to make deliveries.

Explaining the idea, Mr Barry Elrington, DHL central London operations manager, said specially converted Mercedes buses equipped with desk sorting areas will collect incoming documents from the company's sorting centre at Orbital Park, near London Heathrow, and then drive into the city.

During the drive, a team of five couriers will sort out the consignments into individual delivery rounds.

Once in the city, the couriers will be dropped off at specific points to make their deliveries and then rejoin the bus at another point to collect items for their next delivery round. Each bus is expected to deliver some 500-700 shipments a day under the guidance of a team leader who will also drive the vehicle.

"The team buses will leave *the Orbital Park sort centre at* 7am each day – any incoming material destined for the London areas they cover will be sent on later using feeder vehicles which will meet up with the buses at various points during the day," continued Mr Elrington.

Initially, two buses are being put into operation to service the London W1 area. Later this year it is intended to expand

Vehicles are being held up for long periods, making it difficult to maintain a good performance

the operation to include the WC1 and WC2 areas and then in early 1990 to the EC1-4 districts.

Meanwhile, heavy traffic congestion in Tokyo is already forcing courier companies such as DHL Japan and TNT Skypak to make much greater use of standard motorcycle operations, i.e. bikes operating out of a depot, to maintain often tight collection/delivery schedules.

Now, Skypak is looking at the idea of taking that idea a stage further by setting up van/motorcycle hub and feeder operations. They would involve a van or truck being parked in some convenient location and riders on motorcycles being used to cover a local area and feed traffic into and out of the vehicle.

The company may also consider putting some of its local collection/delivery personnel on foot, particularly in areas where there are a lot of large office buildings which can be more efficiently served that way.

Phillip Hastings

هكذا من الاصل

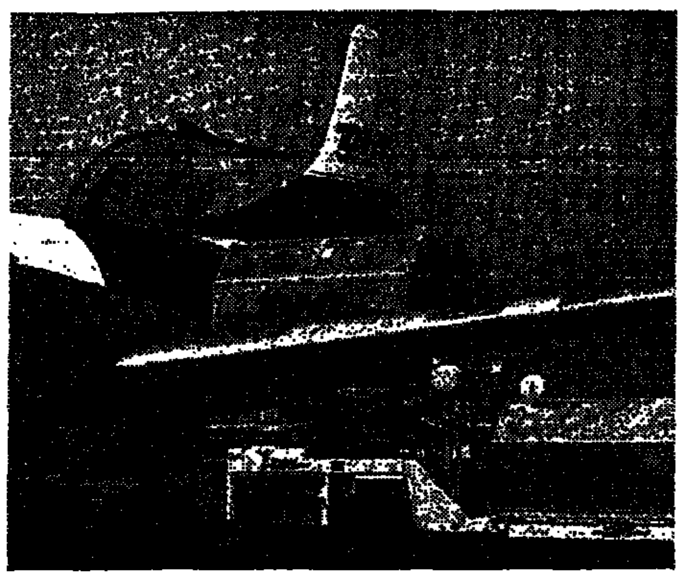
Phillip Hastings investigates the impact of the US giants

Invasion across the Atlantic

USING the massive United States domestic and international air express market as a springboard, major American companies are pushing hard to establish dominant positions in the United Kingdom and general European courier/express business.

Federal Express, United Parcel Service, DHL (founded in the US although now a multinational organisation) and Emery Worldwide head a list of US companies prominent in the fierce battle for European market share with generally smaller locally-based operators and the powerful TNT organisation from Australia.

However, in spite of millions of dollars being invested in Europe by the US giants to support major operational developments and often aggressive marketing campaigns, they are far from having things all their own way.



Hub of operations: DHL has nightly air links with 26 points

Federal Express, for example, has made slower progress with European developments than expected and incurred losses in the process; UPS has taken a very cautious approach and really only begun to accelerate development over the past nine months; DHL is still working hard to expand its established presence in the courier market to the broader air express field; and Emery was recently bought by Consolidated Freightways and is only now beginning to emerge from a period of relatively low profile courier/express operations.

European observers maintain that US companies initially underestimated the differences in approach needed to achieve the same sort of service levels and success in Europe as they had already produced in the US.

"Even now, Europe is still a series of markets, separated by borders and Customs procedures, rather than one huge domestic market. The operation of reliable overnight delivery services in particular is still rather more complex in Europe than it is in the US domestic sector.

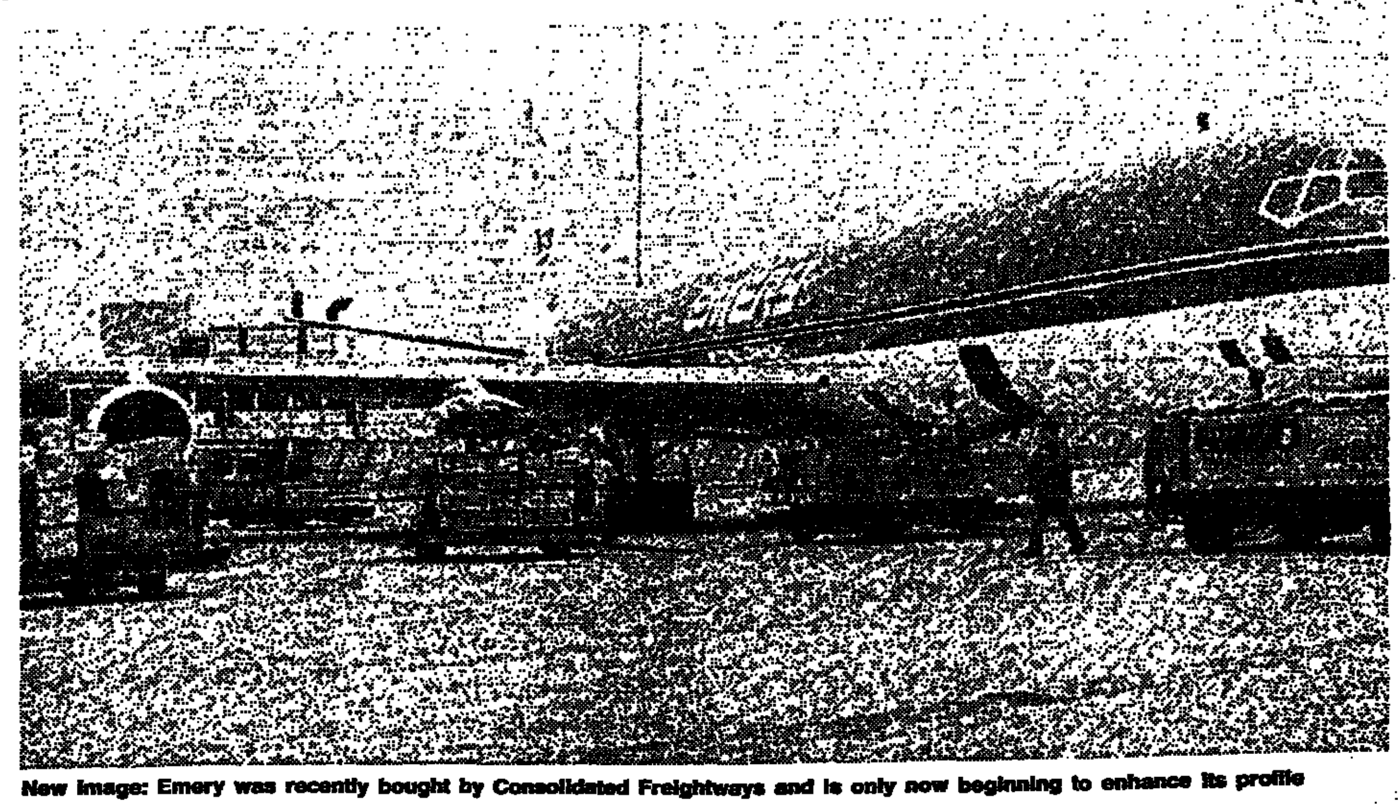
It seemed to take a little while for some of the US companies to fully appreciate that fact," commented an executive with a leading European express service company.

He and other observers also maintain that initial efforts by the US companies to develop a European transport infrastructure geared to handling both intra-European traffic and Europe/North America shipments ran into problems trying to cater successfully for two rather different markets.

However, while the US express industry invaders may have taken a little longer than they expected to start successfully getting to grips with the European market, the sheer size and strength of their organisations is helping them to overcome initial difficulties and become an increasingly powerful force in both the UK and on the Continent.

The largest small package carrier in the US, UPS has been particularly aggressive in recent months. Moves have included expanding its parcels delivery schedule to include some 40 countries worldwide, including all the European Community, and the acquisition of European service partner companies in the UK, Belgium, the Netherlands, France, Switzerland, Denmark and Finland.

Meanwhile, rival US parcels giant Federal Express has over the past 18 months significantly strengthened its European senior management team and pressed ahead with the opening of more new stations in Continental Europe – countries served directly at present include the UK, Holland, Belgium, France, West Germany, Switzerland and Italy.



New image: Emery was recently bought by Consolidated Freightways and is only now beginning to enhance its profile

Federal Express began its major move into the UK and Ireland at the beginning of 1986 with the acquisition of a domestic parcels carrier and contract distribution operation from the UK-based Lex Group – prior to that, Federal Express had been present in the UK but only in a fairly small way.

Since then, the company's UK and Ireland business has grown rapidly and in the coming financial year, 1989/90, Federal Express expects to produce an annual turnover from those operations which is more than three times that achieved at the time of the original acquisitions.

Among recent significant developments in the UK was the acquisition of the business of a mail order company home delivery operation called HDS, now renamed FEPS (Federal Express Parcel Services). Commenting on the acquisition, Mr Colin Millbanks, Federal Express vice president UK and Ireland, said it had been made to better position the company in the important lightweight market.

"The combination of existing Federal Express shipments and HDS shipments will produce a total traffic of 90 million packages a year. This is the highest number handled by any private sector carrier, puts us second only to the Royal Mail in terms of packages carried and represents nearly 20 per cent of the third party shipment market," he claimed.

They underestimated the differences in approach needed

Federal Express is also planning to substantially expand its international air express operations in the UK. Plans include the opening of more stations and development of additional UK/Continent feeder flights.

For its part, DHL has this year rationalised its European operations by integrating the express service operations of European subsidiary express freight delivery company Elan International with the parent organisation.

Previously DHL, still best known for its handling of documents and small packages, and Elan, which specialised in carrying heavier parcels and freight, had marketed their products separately.

Commenting on that move, Mr Brian Fitsall, managing director of DHL International UK, said that much of the reasoning for opting to integrate services centred on the planned single internal market in Europe. "We took a hard look to see what else we should be doing to prepare ourselves for the single market and included in that was a review of the DHL and Elan activities. That led to the decision to integrate the activities," he said.

Coupled with that restructuring of activities, DHL has also now established a new "region" called "European air and hub" which is basically a specialist division to manage the organisation's expanding intra-European linehaul system.

That division now runs an intra-European overnight air operation centred on a recently-expanded hub at Brussels international airport. A fleet of predominantly seven-tonne capacity Convair 580 aircraft now maintains nightly air links with 26 points in Europe and Scandinavia.

Main international services now operated by DHL out of the UK cover the worldwide express delivery of both documents – a traffic which totalled around 3m items in 1988 – and dutiable items up to around 50 kg. The company is also stepping up efforts to attract more of the heavier weight freight as well.

Emery Air Freight became the first US express/air cargo company to operate daily transatlantic freighter flights with the launch in 1985 of DC8 operations. Those flights use Manchester, England and Maastricht in the Netherlands as European hub points. Subsequently, the company went on to develop intra-European courier/express services under the Emery Worldwide banner using a hub-and-spoke air network centred on Maastricht.

Their sheer size is helping them overcome difficulties

However, Emery found it hard to combine its established image as a traditional airfreight forwarder with a high profile in the international courier/express service field. That was one of the factors which eventually led to the company's acquisition earlier this year by another US freight company, Consolidated Freightways, for $230 million. Airfreight operations, including express activities, of the two companies have now been merged within one company which operates under the name Emery Worldwide, a CF company.

Worldwide headquarters of DHL in Brussels: it handled about 3m items in 1988 and is trying to attract heavier weight freight

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David Robinson discusses remail services

Post-hastened deliveries

CONFIDENCE in the reliability of international mail services has been hit in recent years by labour disputes and other problems, which contributed to the expansion of remail services around four years ago.

Remail – the process of taking mail from one country, where it would normally be mailed, and mailing it in another – has increased steadily over the past few years together with the number of operators in the business. It grew out of the need to overcome the generally slow delivery times of international mail by traditional postal services.

For private carriers this provides the opportunity to exploit the difference between the price charged by a post office to deliver international mail and the delivery costs that the private carrier can either negotiate with the post office in the country of final delivery, or could obtain by using the domestic postal tariff in the country of final delivery.

While remail has been in operation for several years, especially for mailing magazines, it is the deterioration of postal services and the needs of the business community for a reliable alternative that have resulted in many companies moving into this field.

Initially, postal authorities were very concerned about the threat of remail and some resorted to legal means to try to stop services. As time went by and relationships were forged between the remailers and post offices, so a better understanding has developed. In many cases remail business means more lucrative business in that they can gain more revenue from the remail coming into their system than the agreed rates for handling foreign mail.

In the case of the UK post office it receives $3.20 per kilogram for incoming foreign mail as the inbalance charge, whereas examples of handling remail has brought more than three times that amount in revenue.

In addition, the post offices in many countries are getting together to offer competing services which match the remailers. In the UK, for instance, the Royal Mail linked up with the private carrier Securicor to operate its "Airstream" service which covers the bulk mailing of international letters. This has developed satisfactorily since being launched and is on line to reach its target of 2m items in the first year which ends in October.

In recent months further developments have been undertaken to broaden the availability of services to smaller businesses. Mr Mike Humphries, the Securicor director responsible for the service, said that "month on month Airstream has been expanding at an average of 28 per cent and that the next two years should see major growth. Relationships with the Royal Mail have also developed well and we are looking to a long-term arrangement."

Sorting mail at Hounslow

One area of concern is the standard of services provided. A number of the major operators have been trying to establish both international and national bodies to monitor standards and regulate operators.

However, little progress has been made except the setting up of remail committees by the Association of International Courier and Express Services in the UK and the International Express Carriers Conferences in the USA.

The size and range of operator varies widely. Each major remail centre such as New York, London and Tokyo, has a number of international as well as local remail companies. Several operators claim to provide a worldwide service while others just serve a few selected markets.

Because of the investment required to set up remail centres around the world, most remailers operator just a few centres around the world. Among the largest remailers are TNT and DHL.

DHL operates an 11-strong network of remail centres including New York, London, Athens, Copenhagen, Brussels, Hong Kong, Kuala Lumpur, Sydney, Auckland and Bahrain.

The mail is dispatched through the extensive DHL courier network with average delivery times being three-five days in Europe and seven-10 days to other parts of the world.

DHL has been very quiet about any future plans for their remail activities. However, it is understood that they have been reviewing very carefully the balance between their remail and courier activities. DHL's remail service, known as Worldmail, was introduced in September 1986 and has shown consistent growth.

Paul Moorhouse

TNT, which claims to be the market leader in remail services with TNT Mailfast, has invested several million pounds in establishing 55 remail centres in 33 countries. This includes five in the US, two in Canada, three in Australia and nine throughout the Caribbean and South America. It has recently opened one in Beijing. The only country to which it cannot deliver is the Lebanon.

The current market growth is estimated to be some 50 to 60 per cent a year with the total market being around 12 million items a day. This excludes the KLM magazine business.

"Customers get a better service through private enterprise," says Mr Paul Moorhouse, general manager of TNT Mailfast. "There has been a dramatic increase in the quality of service by the post offices but they cannot compete with the private systems and problems on co-ordination," adds Mr Moorhouse. "Within recent times the UK, Canadian and French postal systems have all experienced strikes."

In key business centres such as central London, Manhattan and Dublin, TNT has its own postmen doing hand deliveries. In London for instance, this is based on eight post codes for which there is regularly a high volume of post.

There are few restrictions for remail. TNT will handle anything over 1 kg which can be picked up from the customer. Tariff differences between postal services depend on the profit margin of the national postal authority concerned. In the UK, TNT claims its services are between 6-10 per cent cheaper than Royal Mail, while in the US it is 25 per cent and about the same in Australia. "The fact of this price competition has," comments Mr Moorhouse, "not only resulted in more competition from the postal authorities but encouraged others to introduce lower cost increases than they might otherwise have done so. In Singapore they actually reduced international postal charges to 50 per cent of overseas destinations by 25 per cent."

Having put in place such a large remail infrastructure, and Mr Moorhouse considers there could be another five to complete the network, TNT has introduced a wide range of added value services to meet all possible customer requirements.

One recent addition has been the introduction of a registered mail service. "We are looking at some 78 ideas for services at the present time of which 20 may be introduced," says Mr Moorhouse.

One of the latest of these services is the international business reply service whereby in the 33 countries where it has remail centres it can offer customers a comprehensive promotional service.

This includes help in preparing brochures and mailing lists, supply of the correct stationery and a local reply facility, so adding to the impact for the company promoting its goods or services. "The IBRS is only just taking off," says Mr Moorhouse, "but I foresee over the next few months a very significant increase and we guaranteed at least a two times return on any mailing. One customer received a sevenfold increase."

Remail has certainly found a niche in the postal market which enhanced services from the post offices seem unlikely to remove. The main concerns appear to centre on quality of operator and service standards.

WHOLESALING

The answer for small operators

WHILE "big is beautiful" appears to be the order of the day in the international air express/courier business, smaller operators do have the opportunity to compete and develop their own services by using the wholesale companies.

Wholesaling or co-loading allows smaller companies and even larger operators with small volumes to infrequent destinations to combine consignments through a co-ordinating company and thereby offer an international service. Such methods offer an economic alternative in that small companies do not have to support their own linehaul operations or overseas offices.

However, with the ever increasing range of services available, companies using wholesalers do need to monitor both costs and service standards if they are keen to maintain quality of product.

Competition is fierce and margins are slim making the wholesale operators, where they are not airlines themselves, vulnerable especially to larger companies prepared to use price incentives to win market share before stabilising prices.

The growing involvement in the wholesale business by airlines was blamed last October on the demise of Wholesale Courier Network which had been one of the larger and more established companies in the business.

Companies need to monitor both costs and service standards

WCB, formerly known as Inflight Courier Co-Load, went into voluntary liquidation with total debts in excess of £400,000 against assets and outstanding money owed of around £250,000. British Airways was the largest creditor being owed £347,816.

WCN started in 1983 and apart from its Heathrow base had operations in Australia, Tokyo and the USA. After a number of problems which affected cash flow, WCN faced added competition from British Airways which extended its service network by the takeover of British Caledonian.

It is difficult to judge the size of the wholesale market although with the increasing number of operators serving this sector, it does appear to be growing. However it is a time of change with the express companies penetrating deeper into the market and taking a larger slice.

For the freight forwarders wholesaling provides a solution and an opportunity to broaden their services in competition with the integrated carriers. The latter have in turn been showing increasing interest in the movement of heavier freight which is the freight forwarders bread and butter business.

For European operations freight forwarders have a new ally in the form of European Expedite which launched its operations at the end of March. Mr Dallas Sherman, European Expedite's president, commented at the time of the launch: "We are providing a complete service for forwarders and express companies who have been excluded from the world's biggest revolution in freight transport since containerisation."

European Expedite, a subsidiary of Guinness Peat Aviation, describes itself as the first European wholesale express airline. From its Brussels hub it is initially serving 18 destinations including London, Stockholm, Copenhagen, Gothenburg, Paris, Luton, Amsterdam, Frankfurt, Stuttgart, Basle, Cologne, Bergamo and Madrid.

The company's start-up fleet consisted of four Convair 580s, two Falcons and a fleet of Beech 99s. Other aircraft are used under joint arrangements with other airlines.

It is not European Expedite's objective just to serve Europe, although under phase two of its development plan services to Scandinavia, Austria, Greece and extensions to Manchester and Glasgow in the UK will be introduced. Under phase three it is proposed to start longhaul services to North America and the Pacific Rim. No date has been put on phase three.

Although it was established with freight forwarders primarily in mind, European Expedite will also carry consignments for express operators. The company provides a range of services including airport-to-airport, door-to-door and airport-to-door.

In the UK a deal has been agreed with Red Star for the distribution of consignments. For the future as the European network expands so jet aircraft will be introduced.

European Expedite represents a new departure in wholesale operations and it will take time to settle into the market structure. There is little doubt that the integrated express carriers and airlines will be closely monitoring its activities.

The interest of airlines in cargo and courier business has been increasing steadily as they become more aware of the revenue such services can generate. British Airways set up its Speedbird Courier service last year as a wholesale operation and the number of destinations served has risen rapidly.

Mr Geoff Bridges, managing director of British Airways Cargo, in reviewing the airlines cargo results described Speedbird's development as a "special achievement". It now covers 52 cities in Europe, North America, Africa, the Middle East and the Far East.

Mr Bridges added: "The service is now able to handle an annual volume of 4,000 tonnes between any two cities. The wholesale service had proved to be a major innovation in the growing express services industry, with volume growing by more than 100 per cent." BA is putting in place a global network of 60-plus centres directly served from London with about 90 others through partnerships.

The system is based on hubs in Singapore for the Far East and Miami for the Caribbean and South America. New York is BA's busiest route and the airline is now increasing its selling of this point-to-point network.

The Speedbird service is one example of how major airlines are moving into this sector. There are several others such as Japan Airlines with its Jupiter service and Cathay Pacific which has recently started a wholesale operation.

On a much lesser scale Air UK began an on-board courier service in March on its Heathrow-Guernsey route. The success of this has led the airline to look at developing courier services on a number of its key routes.

While many wholesalers offer services to different markets across the world, others chose to specialise in one region. International Express Couriers (IEC), a French operator which has recently set up in the UK, claims to be the only company able to provide a wholesale network in Africa. All West African countries are served and IEC has offices in nine including Nigeria, Ghana and Liberia.

The interest of airlines in courier business has been increasing

It operates a hub in Senegal and mini-hubs in Cameroon and the Ivory Coast. IEC handles some 27,000 shipments to West Africa each month and about 2,500 into Europe.

Scan International is another specialist company which originally concentrated on the Scandinavian market, but has extended its services to 32 major cities in Europe. Scan provides wholesale courier and freight services on a door-to-door basis. It is now undergoing expansion with the opening of a hub in Brussels, a new London-Hong Kong service and the prospect of services to the US.

Within the fast-developing express services industry the wholesale sector plays a vital role in giving customer choice and allowing smaller operators to compete with the larger companies and integrated carriers.

There appears to be no slowing down in the pace of development, just a question mark on how far the market can grow.

David Robinson

The forwarders fight back

Tame reply to threat

IN SPITE of the increasing incursions of the large air express companies – UPS, Federal Express and DHL – airfreight forwarders in Europe still control 90 per cent of conventional airfreight volume.

The express companies have stolen an early march over the airfreight forwarders and airlines in the light weight, premium, small package market segment but while they would like to achieve a balance and capture some of the larger size traffic, those shipments that have traditionally moved by airfreight, they are experiencing difficulty increasing their shipment weights in Europe.

For that and a number of other reasons, the airfreight forwarders remain complacent about the new competition and the threat it represents. Yet, recent changes in transportation trends, increasing adherence to Just in Time inventory control, coupled with the persistent development and expansion of the air express operators in Europe, positively demands a competitive response from the forwarders.

The fact that the majority of air express and courier services and their systems are suitable for the carriage of small parcels only, is irrelevant; the shippers today like what they hear about the door-to-door express services and they are now demanding that their forwarders provide a door-to-door, express, reliable, guaranteed service for one inclusive rate with a single piece of documentation.

For shipments below 100 kg (and with the application of JIT inventory control, smaller shipment numbers are escalating) pressure on the forwarder to supply a door-to-door express service, is even greater. The high frequency, groupage surface operator can quite easily – and cost effectively – introduce express services. For the airfreight forwarder, however, there are a number of major hurdles to be overcome before they can a) provide these services, and b) make a profit from them.

Few of the airfreight forwarders have been able to make a genuine air express response to the market demands primarily because they will (unless they control their own airlift) have to involve a number of third parties to do so. To compete effectively, they have to provide a premium, reliable, air express service at competitive rates. In most cases, this will demand the use of scheduled airline capacity and the airlines will expect a premium rate for the high service standards they must meet. The forwarder will incur various other costs including collection, delivery, 512B airline storage charges and handling charges.

Even those few that have entered the market, readily admit that making a profit on a door-to-door, air express service that relies on scheduled airline capacity, is extremely difficult. Couple this with the fact that the scheduled airlines often fall short on service standards and there is the reason why, in the early 70s, Emery chose to reduce its dependence on the scheduled carriers and invest in its own aircraft fleet.

Since then, Emery's move has been emulated by other American forwarders, CF Air (which recently acquired Emery), Airborne and Burlington among them. Emery's pioneering moves as an airfreight forwarder, into door-to-door air express with its own aircraft fleet, have been well chronicled. The large American company with its international network and considerable experience in the market, was acquired in April this year for \$230m by CF Air, the successful airfreight arm of the giant US trucking company, Consolidated Freightways. The two operations have since merged under the umbrella of "Emery Worldwide – a CF Company" providing am, pm and second day deliveries throughout North America and Courier Express, Air Cargo and Economy services, internationally.

CF Air was already operating its own aircraft and the combined fleet now comprises 80 DC8 and B727 freighters which operate throughout the US from the Dayton, Ohio, hub with a daily DC8 freighter operation on the North Atlantic into Maastricht and Manchester. The company's systems and services are all geared to shipments of any size, any weight from envelopes to parcels to conventional air freight.

Back in the UK, one of the freight forwarders who has braved the air express elements is Rockwood International Freight. Comprising the recent freight forwarding acquisitions of Rockwood Holdings, a consistent USM star performer, Rockwood International Freight represents the combined operations of Walford Meadows and Mercury.

Before its acquisition, Mercury responded to the air express threat with the launch of Quicksilver Express, a defined time, door-to-door or door-to-airport air express service which has been operated primarily in Europe. At Rockwood International Freight, Mr Peter Quantrill, managing director, believes that the forwarders are well equipped to compete in the express arena although he does agree that it is not easy to find airlines capable of meeting the required service standards. That said, while the express operators specialise in the fast carriage of small parcels "the forwarder," says Mr Quantrill, "can offer a menu of options including a timed, express service, and that's our strength."

In advance of the entrée of the American air express companies, IPEC pioneered pan-European road express services which it promoted as "faster and cheaper than air". Today, a number of surface forwarders with their concentration on the 25 kg to one tonne weight bracket, are making a determined bid to carve themselves a niche in the European express market ahead of 1992.

One such is Davies Turner which, with 120 years in the forwarding business, is working now to achieve full recognition as an express trucking operation. For years, the company has enjoyed an excellent reputation for reliable, high frequency Groupage services. Today, as its departures reach maximum levels, the company has grasped the opportunity to move its service range "up market". Same Day and Next Day delivery express services have been added to the Davies Turner Groupage operation between the UK and Germany – Davies Turner's fastest growing European market.

On many European routes the company's normal daily departures are every bit as fast as so-called "express" deliveries but at much lower rates. From London, Manchester, Birmingham and Bristol, Davies Turner operates daily trailer services to Ireland. "If we have the freight by noon, it will be delivered to the customer in Dublin and environs by noon next day and there are rapid transfers to western Ireland," says Mr Phillip Stevenson, Davies Turner joint managing director, who continued: "As Groupage operators, we've got used to living with low costs and rates so that ours can be as much as half those of the express companies in the 25 kg to one tonne bracket. Basically, anything over 25 kg to Ireland or near Europe, should move by surface transport."

Back on the air express front, there is, however, a new very real opportunity for those forwarders wishing to expand profitably into this market. It comes in the form of a company called European Expedite – a Brussels-based, newly-formed subsidiary of GPA Guinness Peat Aviation, the Irish aircraft leasing giant.

Formed by GPA after its attention was drawn to the burgeoning air express market European Expedite is a neutral, wholesale, overnight European express system supported by the company's own aircraft fleet.

In marketing its services to the forwarders since its spring '89 launch, European Expedite has faced an uphill struggle in a generally unresponsive freight forwarding market. Looking at forecasts predicting air express, door-to-door growth rates in excess of 40 per cent a year, European Expedite firmly believes there are excellent opportunities for freight forwarders who wish to capture a share of this market.

"But," says Dal Sherman, president, "the forwarders first have to recognise that to keep a hold on their business, they are going to have to change their whole philosophy to be able to meet the door-to-door demands of the shippers."

The European Expedite concept embodies the company's recognition that for the forwarders, the investment required for marketing air express services and for the ground delivery and collection systems, is considerable. It therefore proposes that, instead of using dedicated, expensive aircraft or co-loading on competitors' aircraft or using scheduled airline services at unsuitable times of the day, the forwarders can easily and cost effectively adapt to the requirements of the overnight door-to-door air express market. This will mean using European Expedite which will tailor the service to the individual company's needs as either fully door-to-door with clearance or any other combination, eg, door to airport.

Anne Hunter

Lufthansa is to introduce a new express service in conjunction with subsidiary C+D Luftfracht. A Speedbird Courier (below) leaves Heathrow aboard Concorde. *Picture: Ashley Ashwood*

The role of scheduled airlines

Flight plans go awry

SCHEDULED airlines are in the main still struggling to produce a really effective response to the advent of integrated courier/express service companies which use their own aircraft and trucks to operate fast door-to-door delivery services.

A few carriers, notably leading European airlines such as British Airways, KLM, Lufthansa and Air France, have over the past few years introduced new door-to-door and airport-to-airport products aimed at trying to secure a niche in the international express freight market.

In most cases, those initiatives have involved trying to develop services in conjunction with their traditional business partners, the airfreight forwarders. Generally, though, these services have achieved only limited success.

Meanwhile, some of the bolder scheduled airline ventures in the express sector have met with outright failure. Scandinavian Airlines System, for example, set up its own intra-European door-to-door delivery organisation, Air de Cologne, but was last year forced to sell the business to integrated operator TNT.

Flight schedules are governed by the needs of passengers

In retrospect, said Mr Johan Stahl, former managing director of Air de Cologne, it was easier to see that the traditional relationship between airlines and freight forwarders would make it very difficult for any carrier to develop successful door-to-door operations in Europe on its own.

"I think the failure to get such developments really moving is a mutual thing involving both the airlines and the forwarders. European airlines for their part have generally been more interested in developing inter-continental cargo rather than intra-European business. In so doing, they created the opportunity for the integrated carriers to come in because they were not offering the sort of overall service levels the market wanted," he claimed.

So where does all that leave European airlines now when it comes to competing for intra-European freight? Not very well placed, according to Mr Stahl, with competition coming from road-based express service companies as well as from the air express operators.

The problem for the airlines, he says, is that their main flight schedules are governed by passenger considerations rather than by freight industry needs.

"There is no real solution to that for the airlines because their main business is passengers. At the same time, airlines find it difficult to run the cost-efficient ground pick-up and delivery systems that are vital in the operation of overnight express freight services.

"They cannot take advantage of any economies of scale when it comes to those sort of operations," he added.

Because flight schedules are basically geared to passenger demands, BA in a bid to counter one of the problems highlighted by Mr Stahl introduced an operation called Midnight Express which involved running night-time B757 passenger aircraft flights between London Heathrow and Brussels to provide bellyhold cargo space for courier/express companies moving consignments overnight between the UK and the Continent.

However, difficulties with customs clearance at Heathrow forced BA to drop the service last year. Now, BA is concentrating on the development of international wholesale courier services, apparently with far greater success.

SAS, too, is having another go at the European express freight market. Efforts are now being concentrated on a product called Priority Cargo which involves using bellyhold capacity on its DC9 passenger aircraft.

The service offers speeded up acceptance/delivery operations and moneyback offers for broken promises on transit times arising from any SAS shortcomings.

Other leading European airlines are looking more at the longer haul sectors of the international express freight market.

The Netherlands's national carrier KLM, for example, is pressing ahead with further development of KLM Express, an operation specifically set up to run express delivery-to-the-door freight services. Initially, the emphasis is on developing traffic from overseas markets such as North America and the Far East into the Netherlands and the rest of Western Europe via Amsterdam's Schiphol Airport.

Two products are being marketed under the name KLM Cargo Doorspeed, one for parcels up to around 25 kg and the other for larger consignments. However, development of the smaller parcels service has been hampered by KLM's recent sale to TNT of its intra-European distribution company, XP Express Parcel Systems, which had been handling the onward movement of incoming Doorspeed small parcels traffic from Schiphol to final destination in Europe. As a result, KLM is concentrating on building up the development of heavier items, mainly in the 30-50 kg range, which are moved on from Schiphol to final consignee by truck.

Meanwhile, West German national airline Lufthansa is this month introducing a new service called ADEC (Airport to Door Express Cargo) in conjunction with its established express subsidiary organisation C+D Luftfracht System (Collect and Deliver Airfreight System).

The new service is designed to allow freight agents and domestic transport companies to offer their customers international door-to-door delivery services under their own name. That is achieved by delivering consignments to the nearest Lufthansa cargo centre, from where they will be flown to the destination airport, cleared through customs and delivered to the consignee.

Taking a rather different approach to the express freight market is Irish airline Aer Lingus.

Limitations of route networks are a problem for airlines

In what is claimed to be the first development of its kind, the carrier last year joined UK-based parcels carrier Securicor to set up a European door-to-door distribution company called Aer Securicor. That company now operates intra-European parcels delivery services using Aer Lingus and Lufthansa air operations which link up Ireland, the UK and the Continent.

For Aer Lingus, formation of Aer Securicor has opened up the way for the airline to get in on the intra-European express market action without running into the sort of groundside problems experienced by many other carriers.

Main benefits for Securicor centre on the opportunities to build up better air links in Europe without the need to invest heavily in its own aircraft capacity.

A major problem for other airlines seeking to develop express business, centres on the limitations of their route networks. Customers generally prefer to use one or two express companies to handle all their shipments to worldwide destinations. An airline operating in particular markets can find it difficult to service points outside its own service network.

Those sort of considerations have prompted UK airline Virgin Atlantic, for example, to link up with courier company FRX International with a view to jointly developing courier/express traffic on the carrier's routes to the United States and Japan.

Phillip Hastings reports on the search for new markets

Asian and African excursions

RAPID expansion of courier and express services in Europe and North America over the past few years has tended to overshadow the industry's development in other parts of the world.

However, leading international courier/express organisations are now also pressing ahead with substantial expansion of operations in other major trading areas, notably Asia, and many of the economically less significant markets.

Not surprisingly, dynamic economic growth in Asian trade with the rest of the world is helping to put markets in that region high on the list for express service development behind North America and Europe – in fact, the Far East is now firmly established as the third point in the main triangle of coverage for the majority of global express operators.

Initially, much of the thrust into Asia by express companies involved the Pacific arena, i.e. trade with North America, as major United States operators such as Emery Worldwide, Federal Express, UPS (United Parcel Service) and Burlington Air Express built up services using a mix of own aircraft capacity and scheduled airline flights.

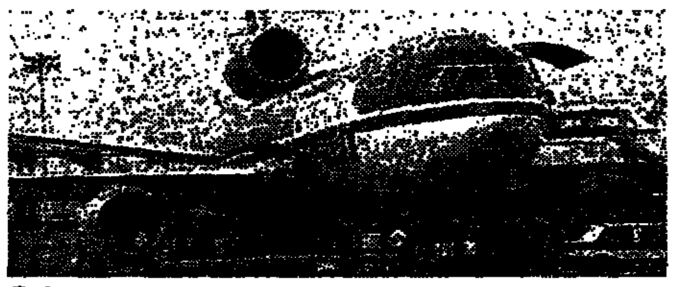
Over the past 18 months or so, though, the Europe/Asia sector has also come in for greater attention. Helping to inspire that trend has been the tendency among Far East exporters to try and sell more of their goods in Europe to take advantage of stronger currencies there.

Latest example of the increasing accent on development of Europe/Asia express services comes from Federal Express which, following completion of its acquisition of US cargo airline Flying Tigers next month, intends to use some of the latter's freighter aircraft to fly express traffic between Europe and the Far East.

"From August 7, we will be able to use a B747 freighter out of London Heathrow which will give us daily Far East line-haul capacity via Anchorage to Japan, Korea and Taiwan, and links into Hong Kong, Singapore and the rest of the Pacific Rim region," said Mr David Wilcock, managing director of Federal Express UK international division.

He believes development will encourage Federal Express to generally raise the profile of its Asian services in the UK market, although the actual volume of business could depend greatly on how much UK exporters decide to try and develop Far East business at a time when much of their attention appears to be focused on Europe and 1992.

One of the most important Asian markets for the express industry as a whole – and one which is now seeing considerable courier/express service development – is Japan. However, major western express companies such as DHL, TNT Skypak, Federal Express and UPS are having to adopt a somewhat different approach



Federal Express aims to raise the profile of its Asian services

to developing business in Japan from that used in North America and Europe.

Japanese businessmen tend to be fairly conservative and slow to change established practices. Converting them to using new courier and express services can therefore take considerably longer than might be the case in other parts of the world.

Also very much part of the Japanese business culture is an expectation of high service performance as a matter of course. Any failure is viewed far more dimly than in Europe or the United States, for example.

"Japanese customers expect to be told immediately of any problems but more than that, they also expect to be told what has been done to resolve them and receive assurance that they will not happen again," commented Mr John Morrison, the regional sales marketing manager for TNT Skypak Japan.

"That same level of expectation also means that it can be difficult to sell the concept of a premium service.

"The Japanese are fanatical about service quality and believe that the standard service should be the best possible, anyway."

Not surprisingly, Japanese shippers can tend to show a preference for using Japanese companies to move their documents and parcels. However, contrary to the possibly prejudiced view of some less successful outsiders, say locally-based express industry observers, that preference is not simply nationalistic favouritism.

"In my opinion it is not generally true that Japanese businessmen will use an express or courier company simply because it is Japanese. It is much more down to a company's ability to understand the culture and respond properly to the Japanese customer's way of working," said Mr Shinichi Momose, general manager for DHL Japan.

Another Asian market of vast potential – recent upheaval permitting – for courier and express service development is the People's Republic of China. However, despite plenty of publicity and some significant breakthroughs over the past three years, including major joint venture agreements for certain leading international service operators, China's express industry is still very much in its infancy.

The main problems include a substantial imbalance of trade in favour of inbound traffic, often extremely antiquated communications, customs clearance systems that have yet to really come to grips with the concept of express services and a general national culture which is not particularly service-orientated.

More positively, the Chinese authorities are apparently aware of most of their shortcomings in areas such as communications and are said to be working steadily, if still somewhat ponderously, towards improving the situation.

Rather less dynamic than Asia in terms of express industry development is the Middle East market, a situation encouraged by the subdued nature of that region's overall trade with the rest of the world over the past two or three years.

Main centres are generally included in most leading courier organisation's networks for document/small package traffic but there has generally been rather less development of other express parcel/freight services as operators have tended to concentrate on more exciting markets.

Major operators are also steadily increasing their coverage of Africa, although that continent can often present particular problems for courier/express companies. Some black African centres, for instance, are poorly served by scheduled airline services, making it hard for the couriers to offer the high speed delivery times available in other parts of the world.

At the same time, certain African post office organisations still appear unhappy about having to compete with fast-growing courier operations and on occasions attempt to put restrictions on them, while other countries continue to be generally suspicious about the whole idea of courier services.

Because of its size and general economic importance, Nigeria is one of the most advanced black African markets when it comes to express service development. Prominent in that market is IML, the UK courier company recently acquired by US parcels giant UPS.

Operating in Nigeria as IMNL, the company reckons to have more than 50 operating units in that country. In terms of services, the organisation claims to offer nexiday deliveries from the UK to Lagos and a number of other major Nigerian centres including Kano, Enugu, Ibadan, Kaduna and Port Harcourt. From other parts of the world, services into Nigeria generally offer a two-day delivery since most of IML's African traffic is routed via the company's London hub operation.

SECOND-TIER OPERATORS

Companies keep grip on 'smalls'

OVER the past 20 years,the UK national express parcels industry has developed on the back of traditional road haulage or through the launch of dedicated services by early pioneers in the field such as City Link Transport.

Despite the predatory entrée of foreign companies, the UK operators have kept a strong grip on their "smalls" in a UK market that is estimated to be worth some £600m a year with predictions of treble growth over the next five years.

Meanwhile, the foreign operators – primarily American with the exception of the Australian company, TNT – have found that breaking into the UK express parcel delivery market was not nearly as easy as they had originally expected. Offering national and international services, DHL was an early arrival but with its initial concentration on a courier operation for the fast transfer of documents, the company has had to invest heavily to upgrade into express parcels and even today, documents dominate as its prime revenue contributor.

In the UK the "new wave" companies faced a plethora of indigenous companies who had spent years developing national networks and door-to-door express parcels services. Despite acquisitions to buy market share, the two US giants, Federal Express and UPS (United Parcel Service) have yet to make their mark in the UK national door-to-door express parcels market. Fedex acquired Lex Wilkinson – a company more experienced in two-three-day national distribution of larger pieces of freight than in parcels. It then moved into the home delivery market with the acquisition of Littlewoods Home Shopping division. The more business-to-business-orientated UK express parcel companies have tended to avoid the home delivery market because of the inherent problems associated with home deliveries and the likelihood of no-one being home to accept the parcel.

With its massive resources, UPS moved into Europe by establishing working relationships with airfreight forwarders such as Atlasair in the UK which it recently acquired. In its efforts to develop UK and European express services, the company's prime aim is to build up international traffic.

This then leaves the UK nationwide door-to-door express parcel companies and behind the frontline giants – the Post Office, TNT, Securicor – the UK market is served by a band of smaller operators including Interlink, ANC and City Link which last year was rated number one in a major independent survey of the UK express parcels industry.

Among the early starters 20 years ago, City Link until its May 1989 acquisition by the Securiguard Group plc, was the largest privately-owned British express parcels company. It was also the first transport company to move into franchising, a concept which has been adopted in the courier and express parcels market by others such as Interlink, ANC and Nightfreight.

In the progressive development of its nationwide door-to-door, express service, City Link, with its range of Same Day, Next Morning and the express document service, Linkletter, has established a UK branch network of 47 offices, 15 of which are company-owned and the remainder by the franchisees. This considerable network enables the company to meet its commitment to operate door-to-door "to and from any address nationwide" with a double money-back guarantee should the goods not arrive at the mutually agreed time.

High growth over the past five years with turnover up from £3.4m to £12.4m and pre-tax profits of £1m in 1988 (when the City Link and franchisee system-wide turnover was £19.8m) led to serious consideration of a stock market flotation – a move subsequently rejected in favour of acceptance of the £6m offer by Securiguard, the security systems, industrial cleaning group which offered £2.2m cash and the remainder in new Securiguard shares. Mr Bob Thomas, City Link chief executive and chairman, says while the company has consistently outperformed general market growth, "we will far outstrip previous growth records over the next few years with the new resources at our disposal".

Apart from claiming to have the best franchise system in the business, City Link attributes its success to an early concentration on Same Day and Next Morning services. According to Mr Thomas: "Others have homed in on Next Day services and now they are having to upgrade to next morning, timed deliveries and, to a lesser extent, Same Day services."

In 1987, City Link introduced Phase 1 of its European expansion plan with the launch of Linkletter-International and City Link-Europe as express door-to-door services for documents and parcels. Phase 2 is now under way with the opening of a new Paris office to spearhead the European development which will be achieved either through acquisition or through "start-up".

Following in City Link's footsteps as a franchise operation, the Bristol-based company, Interlink, was formed in 1981. Four years later Mr Richard Gabriel, chairman, took Interlink to the USM and in May it expanded into Europe via the launch of a franchise operation in Germany.

The foreign operators have found that breaking into the UK express parcel market was not nearly as easy as they had originally expected

While franchising has proved successful for Interlink in the UK where it works primarily with small franchisees, the German operation faced difficulties after only a month during which senior management changes in Germany were followed by warnings of substantial losses on the new operation. This warning culminated in a drop of 85p to 188p in Interlink shares on 29 June – the day before the end of the Company's financial year.

Moving into Germany – a notoriously "difficult" market under the tight control of a group of large transport operators – Interlink sold its franchises to established large companies who were (unlike the small UK franchisees) not prepared to devote themselves solely to Interlink representation. The plan now is to remove the unsatisfactory franchisees and to start again from scratch – a reorganisation that is likely to bring substantial losses in the 1989/90 financial year. Although Interlink remains committed to European expansion, it may well find that franchising is not the route to be followed.

In the UK, express parcels franchising continues to gain support. Dyno-Rod millionaire, Jim Zockoll, who started ZIF parcels as a franchising operation in the UK, has rescued the Northampton-based company, Nexday, by taking a majority holding in the ailing company. In spite of early denials that he would convert Nexday to franchising, Mr Zockoll has done just that and a recent series of newspaper advertisements for franchisees has met with a huge response.

While the UK express parcels market has seen a certain amount of fall-out recently - eg. the demise of Independent and Connect UK, later purchased and relaunched by Eagle Trust as Eagle Express which has also since been folded - new companies have also emerged. One such is FRX - yet another express vehicle from the entrepreneurial efforts of its founder Mr Ian Sayer, who has many years experience in the UK and European express markets through his own company, Sayer Transport formed in 1969 and later sold to IPEC. Since that time Sayer has worked with a number of companies in their development of European express parcels networks and services.

Described as an international courier service for documents, parcels and low weight freight, FRX is "selling" its concept and system to franchisees around the world who will gain access to the FRX system for £300,000 which will bring them an open line to all other companies in the organisation. They will also benefit from what the company says is "the first and only fully integrated courier management EDP system in the world". Called ICMS, the system has been designed to provide "the fastest, most comprehensive, most accurate customer information service of any international courier company anywhere in the world".

This is brave talk indeed when aired in the shadow of the hugely expensive computerised information system developments of the likes of Federal Express and UPS. However, the proof of the FRX system will be in the application and these are early days yet for the company which at the end of this, its first year, expects to gross around £1.5m.

Anne Hunter

LOCAL COURIER COMPANIES

Where the going gets tougher

A QUICK look through the Yellow Pages directory for most parts of the United Kingdom will reveal a seemingly ever-growing list of local courier companies using motorcycles and vans to serve their own catchment areas and further afield.

In London, for example, there are at present reckoned to be something like 180 companies operating quick response motorcycle messenger services, ranging from the one-man-and-a-bike brigade through to leading operators with fleets of 50 or more vans and motorcycles.

Also included in that number – and now noticeably stepping up their presence in that market and in other parts of the UK – are the local messenger and instant response divisions of major national and international organisations such as Federal Express (Rapid Despatch), Securicor (Pony Express), TNT (TNT Courier), and City Link Transport.

Over the year or so, for example, Federal Express has launched a concerted drive into the UK sameday delivery market. Initially, efforts are being concentrated on building up operations in the London/M25 area but by mid-1990, the company plans to have sameday operations up and running in at least five major UK centres.

They will in turn form the foundations for a nationwide sameday pick-up and delivery service to be built up over the next couple of years.

Starting point for that development was the Federal Express acquisition towards the end of 1988 of London-based Winchmore Developments, a well-established operator in the London document and small package market where it traded as Concorde Despatch and Britannia Despatch.

Between them, those two courier companies have given Federal Express a sameday collection and delivery fleet of some 220 radio-controlled vehicles, including 95 motorcycles, 20 light vans and 105 cars.

Meanwhile, Securicor's sameday despatch operation, Pony Express, is now rapidly being expanded to cover most major business centres in the UK. Over the past eight months, new branches have been opened in Croydon, Northampton, Cardiff and Southampton to bring the total to 20. Further branches are due to open in Basingstoke and Maidstone by the end of this year and plans are being drawn to open another three or four offices in London to join the established Pony Express head office in Wembley.

In London there are at present about 180 companies operating quick response motorcycle messenger services

Coupled with that branch expansion, Pony Express also plans to step up development of sameday trunking operations between major UK centres to enable it to offer much cheaper delivery services.

By doing that, says Mr Mark Smith, Pony Express development director, it should be possible to reduce the average rate of around £100 for a sameday delivery between London and Manchester using an exclusive motorcycle to more like £25 for a service where a number of items are consolidated for the trunking section.

Typical of the independent London specialists is Speed Couriers which in the 10 years since its formation has expanded to the point where it now operates a fleet of 35 motorcycles and 25 vans. The bikes are owned by their self-employed riders, while the vehicles are leased by Speed Couriers and driven by company employees.

Reflecting the general growth of the courier/express industry over the past few years, Speed Couriers has already expanded its operations well beyond just the London area on-demand collection/delivery market. The company uses Datapost and Red Star, for example, to handle UK nationwide and international deliveries. The company also runs its own scheduled overnight services both within London and to selected centres outside.

More recently, Speed has developed a specialist distribution operation on behalf of printing companies, moving material between customers in the London and Home Counties region and printing house in various parts of the UK. In a similar vein, the company plans soon to introduce a specialised service for the movement of pictures and other works of art.

While Speed's specialist services have grown out of its standard bike/van delivery operations, other companies, particularly some based in the London area, have specifically targeted certain industries and business sectors.

Citi-Connections, for instance, claims to offer a package for financial and media companies which ranges from instant response courier/van services in the City of London and Home Counties to a national and international courier service, electronic mail and telex links, a combined City-fax and hand delivery operation and computer mailing/printing facilities.

Although London has not surprisingly seen the biggest boom in local courier operations, there has also been rapid development of express services in other parts of the country.

In some cases, companies which began life covering particular regions have gone on to develop nationwide services through agreements with partners in other parts of the country or membership of consortiums, in the latter case sometimes via franchise arrangements.

However, many local messenger companies have found it tough to expand their business beyond their particular home areas. Over the past two or three years, for example, a number of London-based motorcycle/van couriers have attempted to develop operations in other major centres such as Manchester and Birmingham. Most have subsequently been forced to pull out, but only after price wars which have also undermined the progress of locally-based operators.

Cities the size of Manchester, Birmingham and Glasgow in fact generate fairly substantial volumes of business and with the continuing growth of regional newspapers/publishing house, advertising agencies and light industry, the traffic profile is similar to that of London's West End. That has helped several regionally-based companies develop into quite sizeable operations in their own right – Birmingham-based BXT, for example, now has some half a dozen offices covering and an annual turnover approaching £2m. Even smaller cities such as Leicester tend to have two or more specialist courier companies.

However, they still have to contend with the basic problem for most courier companies operating outside London – the fact that although most day-to-day costs are the same as in London, there is far less regular business available. That makes it harder for service operators to double up on jobs using the same bike or van, particularly on longer hauls. Attempts to do so often provoke adverse reactions from customers unhappy about slower delivery performance.

At the same time, competition is intense, even in the less economically-buoyant parts of the UK. Many unemployed people have used the government Enterprise Allowance scheme to set up small bike and van despatch operations in places such as Newcastle. Often operating from home with very low overheads, they can survive on lower rates than more substantial organisations.

Adding to the problems of too much competition have been efforts by some general freight transport and road haulage companies to build up courier services as an adjunct to their mainstream business. Taxi firms, too, have got in on the act, some of them quite successfully if only through acting as the local collection/delivery agent for a larger courier/express organisation.

Phillip Hastings

Phillip Hastings discusses links with eastern Europe

Focus on the Soviet Union

PLANS by TNT to set up a partnership with the Soviet Union's national airline Aeroflot to run international air express delivery services, probably from this autumn, highlight a marked acceleration in the general development of courier/express operations between Eastern Europe and the West.

Over the past year or so, for example, both TNT and rival air express organisation DHL have established significant joint venture operations in Hungary – TNT with national airline Malev and various other Hungarian organisations and DHL with state-owned transport company Hungarocamion.

Now, both companies are focusing greater attention on the Soviet Union. While TNT is finalising plans for its new venture with Aeroflot, DHL is this year opening up six new locations in the Soviet Union to bring its total in that country to 13 to cater for an expected future growth in Soviet Union business of something like 70 per cent a year.

In fact, Mr Larry Simpson, DHL's area manager for southern and eastern Europe, claims that air express operations in general will play a central role in the growth of overall trade between eastern Europe and the rest of the world.

"There is tremendous growth potential in eastern Europe and there is evidence that industries there are responding to the challenges of the new era. In 1988, our inbound-outbound traffic ratio for Eastern Europe was 3.2:1 but that is now down to around 2.6:1. We expect to see that longer term trend towards parity continue," he said.

Similar optimism is expressed by TNT. Although the company expects to start its new Russian operations in partnership with Aeroflot, there is a strong likelihood that the relationship will develop into a full joint venture operation within a year of start-up.

Latest TNT thinking on that development initially envisages using Budapest as a transhipment point. The idea would be to feed freight into Budapest from Cologne – the hub point for TNT's overall European air express operations – via a nightly British Aerospace 146-QT jet freighter aircraft operated on behalf of TNT's joint venture Hungarian company, TNT Malev Express. Aeroflot or Malev would then fly the freight to and from Moscow.

"We will try and make the operation into an overnight delivery service for European freight destined for Moscow. That looks possible at the moment and even at worst we would be able to offer delivery on the second morning after collection in Europe," said Mr Alan Watson, managing director of TNT Express Europe.

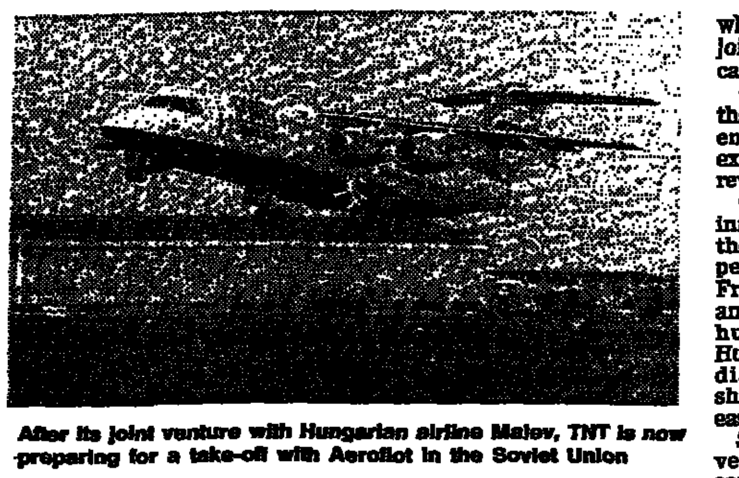
"It will be possible to extend the delivery service into other parts of Russia using the large Aeroflot network of internal flights."

TNT is also planning to work with Aeroflot to help develop the airline's ground network structure in Russia. TNT will, for example, be supplying vehicles which will probably bear the logo TNT Aeroflot or something similar.

Although the planned new Russian operation by TNT looks set to be started using Budapest as a transhipment centre, Mr Watson said that longer term the Hungarian centre might not be the best placed point geographically to act as a gateway for eastern bloc air express services in general.

"Berlin, for example, might be better placed for development as such a hub but in fact I am at present not so keen on the idea of establishing any east European hub. At this stage, I would like to see Cologne eventually become our main hub for the whole of Europe, East and West," added Mr Watson.

For the moment, though, Budapest is continuing to develop as the principal gateway for general courier and express freight industry development in eastern Europe. The factors behind the development include the generally progressive thinking of the Hungarian Government and a concerted move by Hungarian industry and commerce to step up international trade, particularly export business, outside eastern Europe.



After its joint venture with Hungarian airline Malev, TNT is now preparing for a take-off with Aeroflot in the Soviet Union

First western express company off the mark in that respect was DHL Worldwide which in mid-1988 set up its joint venture with Hungaro camion.

Operating as DHL Budapest, the joint venture company now employs 22 staff and is expected to generate an annual revenue of \$5m by 1992.

Other parts of the same initiative involved relocating the company's eastern European head office from Frankfurt to Budapest and announcing plans to build a hub operation in the Hungarian centre to act as a distribution point for shipments into and out of eastern Europe as a whole.

Since the initial joint venture moves in Hungary, says DHL, considerable progress has been made in each of the areas covered by the agreement.

Following the relocation of the eastern European head office to Budapest, DHL's computerised Lasernet tracking and tracing system has been implemented in that market.

Meanwhile, negotiations covering the establishment of separate DHL-dedicated hub premises at Budapest's Ferihegy 1 airport are only now being completed. As a result, DHL now expects to have its own dedicated facilities at the airport on stream during the first quarter of next year.

"We already have daily charter flights linking Budapest with our principal European sorting centre in Brussels, Belgium and Zagreb, Yugoslavia. In August, we plan to add two more Budapest flights linking that centre with Athens, Greece and Belgrade, Yugoslavia," said Mr Simpson.

In addition to Hungary, DHL also claims to be making substantial progress with the development of services throughout eastern Europe where it operates in Russia, Czechoslovakia, Poland, Yugoslavia, Bulgaria, Rumania and East Germany.

Meanwhile, TNT is investing an initial \$50m in its Hungarian joint venture project to spearhead an expected major push into eastern European markets.

That investment, which includes aircraft and handling equipment, covers the setting up of joint venture company TNT Malev Express in conjunction with Malev and other state companies including freight forwarder Masped, import/export agency Technoimpex, and major chicken processing company Balbona to operate 24-hour delivery air express services between eastern bloc markets and Western Europe.

Looking ahead, TNT plans to develop other eastern bloc air express traffic through Hungary. Mr Don Dick, chief executive of TNT Europe and TNT Skypak, also believes the Hungarian development will open up further opportunities to link up Europe as a whole with other international markets.

"There are definite opportunities for operating through the eastern bloc into the Middle East and across to Asia, although such moves are probably another 12 months away at the moment.

"We could establish links with those marke ts either using our own aircraft or in the same way we are operating in Hungary, i.e. working with a local airline," he claimed.

Other eastern bloc developments in the pipeline for TNT this year include the likely expansion of Mailfast remail operations in that market through a joint venture agreement with the Hungarian post office.

As with the TNT Malev development, a Mailfast tie-up with the Hungarians would be seen as a stepping stone into the rest of the eastern bloc.

PROFILE: RED STAR

Streamlined independent

THERE is considerable change under way in the Red Star parcels arm of British Rail turning this traditionally sluggish operation into a competitive and market-orientated force.

Spurred on by the increasing challenge presented from road and air parcel companies, Red Star has seen new investment, new managers with new ideas and a new independence, drawing away from the embedded culture of BR.

"We have to maintain our links with BR and its service network but we are giving Red Star its own identity to reflect the changing market," says Mr Adrian Shooter, managing director of Red Star. "Our biggest USP (unique selling point), is the network of 500 express parcels offices around the UK which probably bring 95 per cent of economic activity in this country within 10 miles and any station. This network is of tremendous benefit to us," adds Mr Shooter.

The transition of Red Star began last October with its formation as an independent, dedicated parcels division within BR.

For Red Star, BR's parcels arm, 11,000 trains take the strain

The division employs some 1,800 people and expects to see turnover rise this year from £55m to around £70m. In October the restructuring was described as preparing for an assault on the European parcels market by the large American operators such as Federal Express and UPS rather than a prelude to privatisation.

Either way the move serves a similar purpose in that it makes Red Star more responsive to the market place and better equipped to expand its services in Europe and worldwide. Major elements of Red Star's new independence and image are a higher profile and a greater accountability to customers.

The latest expression of this policy is the appointment of 40 dedicated regional managers who are responsible for overseeing product quality and service standards.

Mr Shooter points out that these new managers have been drawn from several sources. "A number of existing Red Star managers have been reconfirmed in their jobs while others have been recruited from retail and service areas such as the courier business and hotel and catering.

"Total quality management is the objective of all the changes," comments Mr Shooter. "It is all to do with developing a new culture," he adds.

The programme takes in all parts of the operation and will be on-going to improve both standards and quality.

All employees have gone through a two-day training course to highlight the new emphasis on standards and further training is planned. New uniforms have been issued and a new livery is being introduced for road vehicles. Red Star is actively investigating the BS5750 standard as a recognition and audit of quality of service. New simplified instruction manuals have been prepared which Mr Shooter describes as "tremendous tools".

Considerable investment is also being put into making the Parcel Points in stations more "customer friendly". Each Parcel Point is given a budget to choose from a wide range of furniture and accessory kits to lay out their own Parcel Point in an attractive and functional way while using a standard logo and colour scheme. "This delegation of decision making helps bring in the staff at the local front line as part of the new culture," comments Mr Shooter.

In the UK Red Star claims about 13 per cent of the same-day/next-day am market. Its domestic service range has been reviewed and improved with further developments planned. Some 60 per cent of all customers take and pick up parcels at the station while at 180 of 500 railheads served consignments can be picked up or delivered by Red Star. This is done through a spontaneous on-demand special delivery premium service or a regular scheduled pick-up where large and frequent volumes are involved. To handle these pick-ups Red Star has arrangements with some 480 taxi operators. The guaranteed pick-up time is 90 minutes while the average is nearer 20-25 minutes.

Delivery options on time are before 9 am in most major business centres, before 10.30 am and before 12.00 am. These are differentiated by price. Mr Shooter says: "Red Star has a tremendous same-day ability which is increasing in importance with customers especially with the growth of 'Just-in-time' distribution systems and such factors as interest rates. Our strength is at the front end of the market and currently some 50 per cent of our business is same-day.

"We are very concerned with quality of service. Currently 97 per cent of our same-day/overnight business arrives on time but we are striving to improve on this. We do not fall into the trap of resting on our laurels. There is considerable customer interest in the manifestation of certain services."

Red Star operates a computer monitoring system to provide a check on performance as well as a customer proof of delivery if required. This tracking has recently been upgraded by the use of bar-codes on each consignment so that information is gained at several points. This will be used increasingly to extract management data in controlling operations and in servicing the 100,000 customer base. Half of this total are account customers.

Red Star's European and worldwide services which cover some 80 countries represents about 3 per cent of turnover. Mr Shooter hopes to increase this to around 20 per cent by 1992 especially through using its domestic network to feed the international services. "We will be able to offer later cut-off times and be more competitive on European services," he says. "Red Star is putting alot of time into revamping the European network to give guaranteed times. It is a matter of tightening up the services and extending the range of products."

To serve its European services Red Star has opened a hub in Charleroi, Belgium, from where some 3,000 stations are linked in. The hub is operated by the Eurail consortium of which Red Star is a member. Red Star uses other Eurail members to handle consignments in Belgium, the Netherlands and France but has other arrangements in other countries as it feels the level of service offered is not yet adequate.

"We are talking with a number of members about future arrangements," comments Mr Shooter. "There is huge potential, especially with DB in Germany, for example."

The Channel Tunnel will open up considerable opportunities to offer same-day express parcel services to Paris and Brussels and from those destinations into London. "We will be able to offer a faster service and competitive prices with the airlines as we go from city centre to city centre," says Mr Shooter. "We are looking at a whole range of alternatives for night services and looking to get the maximum out of the passenger services."

In another development to further boost its European activities, Red Star has reached a wholesaling arrangement with European Expedite on delivering door-to-door all consignments the airline brings into the UK. These parcels arrive in time to catch early morning trains so generally reach their destinations by midday. Mr Shooter is keen to expand this type of business and has set up a special facility at Heathrow in the Cargo Centre to handle this traffic.

Mr Shooter is optimistic for the future. With Red Star having re-organised, he sees the new culture showing through increasingly in the quality of service and product and in the organisation's competitive edge especially with the benefit of the Channel Tunnel in Europe.

David Robinson

Companies are investing heavily in communications systems

In touch with developments

AN INCREASINGLY important factor in the battle for courier/express parcels business is fast and efficient communication between service operators and their collection/delivery fleets.

The need to combine maximum fleet efficiency with a fast response to customer requests for collections or for information means leading courier companies are investing heavily in communication systems to keep them in touch with drivers on the road.

Included in the range of communication options open to express service operators are direct depot-to-vehicle computer terminal links, much-improved mobile radio equipment and vehicle tracking systems. All are designed to help express companies improve vehicle fleet operational efficiency and security.

A good example of the move towards computerised depot/vehicle communications is provided by Federal Express UK which this year installed computer terminals in 40 of its London-based collection/delivery vehicles which allow proof of delivery information collected through drivers' hand-held trackers to be instantaneously fed into its computerised parcels tracking system.

The units, known as Dads (Digitally Assisted Despatch System), represent the latest enhancement to the Federal Express Cosmos (Customer Operations Service Master On-line System) system which handles the physical tracking of each package from point of origin through to final destination using a series of scans at different stages to read bar code labels.

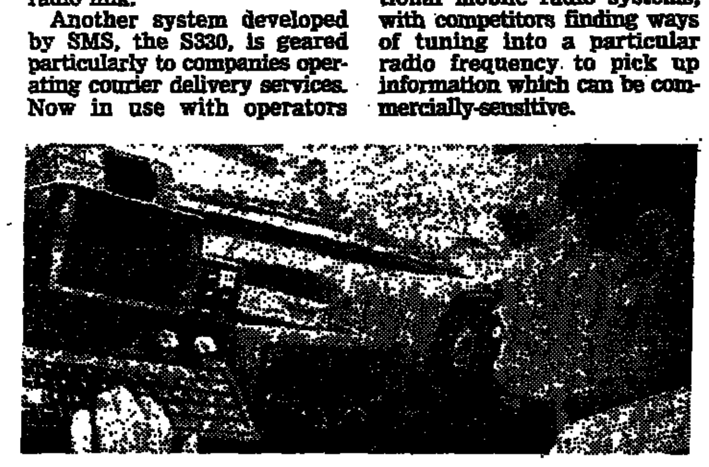
Key features of Cosmos 11B, as the upgraded system is called, are small hand-held units called supertrackers which are used by collection and delivery couriers to scan packages. Previously, drivers have had to wait until they returned to their depot to download information from their trackers into the Asystem.

Now, by using the Dads terminals in their vehicles, they can transmit the information while they are still on the road. Initially, the emphasis has been on collecting and transmitting proof of delivery information but a second phase development now being implemented includes the processing of pick-up details as well.

Meanwhile, other courier and express companies looking to develop their depot/vehicle communications through the installation of computer terminals and equipment in vehicle cabs are being offered a variety of different packages by outside computer system companies and software houses.

Cambridge-based Spectronics Micro Systems, for example, now offers a number of products and systems in that field. One of the latest, the S320 mobile data communications controller, is a small low-cost intelligent modem designed for use in a vehicle equipped with a conventional mobile radio. It enables the driver to have a two-way communication with a remote host computer over the radio link.

Another system developed by SMS, the S330, is geared particularly to companies operating courier delivery services. Now in use with operators



A courier keys up for instructions on an "in-cab" computer

such as DHL, the system centres on the use of mobile data terminals which can pass printed messages between depot and driver.

That, it is claimed, cuts down on time and eliminates the potential errors of verbal radio communication. A further advantage is that the driver does not have to be in his cab to receive the message, dispensing with unnecessary and time-wasting repetitions. A third SMS system, the S340, additionally includes an alpha numeric keypad to enable drivers to send back information to their base.

Most significant development on the mobile radio front involves the Band Three Radio system now being introduced throughout the United Kingdom.

The consortium behind the project is committed to establishing a national mobile Radio network covering at least 80 per cent of the population by 1991 – at present the system covers around 60 per cent and has some 8,000 subscribers.

Band Three is based on the use of the old 405-line television channels, released by the government for commercial application to ease mounting congestion on other radio frequencies.

It is said to offer a host of improvements over traditional two-way radio systems, including better reception, faster connection times and complete privacy for the duration of the user's call.

The last-named feature can be surprisingly important for courier/express service operators – lack of privacy has been a problem with many traditional mobile radio systems, with competitors finding ways of tuning into a particular radio frequency to pick up information which can be commercially-sensitive.

Band Three is also said to provide an average connection time of just six seconds, as opposed to delays of several minutes that can be experienced by users of other mobile radio systems.

Even during peak periods, it is claimed, Band Three users will normally be connected with the receiver within 20 seconds.

Another important difference between Band Three and other mobile communications systems is that with the other systems, someone on the road can only talk to the base station.

With Band Three, users will be able to have a conference call, with people on the road talking to each other as well as with their base, commented a spokesman for the consortium.

The Band Three network also provides a Radiotext facility which allows text to be sent over the network and printed out on a vehicle-fitted terminal.

That means that even if a driver is away from his vehicle, the base or depot can send a written message via the Radiotext service which will be waiting for him on his return. Similarly, the driver can also transmit messages to his office or even to other vehicles in the fleet.

Express companies known to be interested in using the new network include Securicor Express which currently uses a system called Relayfone for both voice and data transmission but plans soon to upgrade to Band Three.

Other alternatives for keeping closer tabs on vehicles while they are out on the road, particularly those involved with the movement of high value goods, include adopting some form of automatic vehicle location system. There are several methods available, all using different means of location.

Latest development in that sphere involves a system called Datatrak, a joint venture involving the Securicor Group and George Wimpey, which uses the principle of radio navigation as the base for vehicle tracking operations.

Main feature of Datatrak is its ability to track live the whereabouts and status of collection/delivery vehicles. That is achieved using a network of low frequency radio transmitters whose signals are received and processed by an in-vehicle locator unit to give very high accuracy wherever the vehicle is located.

Datatrak presents the fleet controller with a computerised moving-map display of the country showing the location of his vehicles. Additional data showing the status of the vehicle can also be displayed, including an emergency alarm facility designed to help direct emergency services to a particular vehicle.

Not surprisingly, the parcels delivery arm of the Securicor Group, Securicor Express, is leading express industry interest in Datatrak. The company is already using the system in London on a test basis to assess the best way of employing it throughout the UK. Initially, the emphasis is on using Datatrak for fleet management purposes but Securicor Express believes it will prove valuable from a security point of view as well.

Phillip Hastings

Phillip Hastings discusses BA's express service

Airline finds rewarding niche

HAVING helped pioneer the airline industry's response to the express freight phenomenon with the launch of a door-to-door delivery service called Speedbird Express in 1982, British Airways subsequently struggled to find ways of further developing its role in that market.

Over the past couple of years, though, the carrier finally appears to have discovered a rewarding niche in the express business through the provision of international wholesale on-board courier services to other courier, express and freight forwarding companies.

Biggest market for Speedbird Courier is the US where a dozen cities are served

In fact, such has been its recent growth in that sector that BA now claims to be the world's leading wholesale courier organisation, a development reflected in the carrier's recent acceptance as a member of the management committee for the express industry trade organisation, the European Express Association.

Operated under the product name Speedbird Courier, BA's wholesale service involves using airline personnel and retired staff to accompany courier bags on the carrier's flights to selected destinations all over the world. The 30 kg courier bags containing documents, small packages, etc, are actually transported in the bellyhold of passenger aircraft while the couriers physically carry the accompanying documentation necessary to satisfy Customs procedures at the destination end.

BA is operating direct on-board courier services to close on 60 centres around the world, with nearly 100 additional points in South America, the Caribbean and the Far East being covered indirectly through hubs such as Miami and Singapore.

"This service is geared specifically to wholesale business — we are not interested in the retail trade," said Mr Geoff Bridges, managing director cargo for BA.

"We see Speedbird Courier principally serving smaller courier companies and forwarders on prime traffic routes and major operators like DHL and company on the thinner routes."

Biggest market for Speedbird Courier at present is the United States, where around a dozen cities are served. Included in that operation is the use of the two Concorde flights a day operated by BA between London Heathrow and New York to offer the possibility of sameday deliveries for traffic out of the UK.

BA has also over the past year massively expanded its Speedbird Courier service coverage of Continental Europe and Scandinavia to now include some 20 major cities, ranging from the popular express traffic points pf Amsterdam, Brussels, Paris and Frankfurt to less well-served cities such as West Berlin, Istanbul and Moscow.

"The pace of actual route expansion will now begin to slow down although that development will continue. The main thing now will be to try and build in added value packages, for example consignment tracking, said Mr Bridges.

He also believes there may be scope to develop some European services to cater for same-day deliveries by running Speedbird Courier operations on late morning/early afternoon flights to key Continental centres.

Still on Europe, BA has not given up hope of resurrecting something along the lines of its ill-fated Midnight Express operation which was set up to offer overnight wholesale courier/express capacity between London and Brussels, using the belly-hold freight capacity of a passenger fleet B757. That operation folded after only a few months in mid-1988 due to problems with Customs clearance arrangements at the Heathrow end.

On a broader front, Mr Mick Fletcher, BA's marketing manager express services, is also keen to see the airline develop a courier/express transfer operation in London which will boost the development of Speedbird Courier services throughout the BA route network, as opposed to just in and out of the UK.

"In other words, we want to become a network seller, selling services from any point in the BA network, to any point in the network," he added.

Second string to the BA express bow is its original Speedbird Express service which offers door-to-door delivery of parcels and freight to nearly 40 countries worldwide. The majority of traffic handled is either in or out of the UK, although BA is constantly looking to try and develop more movements between different points in its network. Speedbird Express is particularly designed for use by domestic express companies and freight forwarders which do not have the capacity to run their own international door-to-door express operations.

Meanwhile, a continuing upsurge in express business through London has prompted BA to open this month an additional module at its Heathrow express handling centre, which is attached to the carrier's import building.

A business upsurge has prompted BA to open another module at Heathrow

The express handling unit is able to accept consignments up to 45 minutes before flight departure time and have inbound freight available for Customs clearance in the same length of time. Creation of additional space will effectively treble the size of the facility and cater for expected demand for the next couple of years.

"Beyond that, we will be looking to have a separate express handling building, probably located at the back of the import shed. We have just set up a committee to look into that project," added Mr Bridges.

UNITED PARCEL SERVICE

Big Brown hoists its colours

THE largest small package carrier in the United States — and through that business, the largest in the world — United Parcel Service (UPS) was until recently a relatively small player in the general United Kingdom and European international express/courier market.

Over the past year or so, though, a number of significant company acquisitions and service developments, combined with a major advertising campaign in both the national and trade media, have substantially expanded operations and pushed UPS much more into the limelight.

Further helping to increase the general UK public awareness of the Big Brown, as the company is nicknamed in the US, was the recent introduction in London of vehicles in the highly distinctive UPS livery of dark brown with a golden logo and lettering.

Flying high in Europe: over the past year UPS has begun to accelerate expansion plans

Founded in 1907 and now based in Greenwich, Connecticut, UPS last year delivered some 2.7bn parcels and documents and generated revenue of more than $11bn.

To support that business, the company employs some 220,000 people worldwide, owns 114 jet aircraft and leases a further 250, has 104,000 package delivery vehicles, tractors and trailers, and 1,750 operating facilities.

The first move into Europe came in 1976 when UPS established a domestic operation in West Germany.

However, the next major European development move came in 1985 when the company announced the setting up of service partnerships in the UK, the Netherlands, Belgium, Luxembourg and France.

Even then, though, the traditionally conservative UPS management trod cautiously in Europe and it is only over the last year or so that expansion has really begun to accelerate. Industry observers believe that part of the reason for that caution involved the fact the company was engaged in discussions with rival courier/express organisation DHL with a view to a takeover or merger, although UPS has never publicly confirmed that any such talks took place.

Whatever was or was not discussed, UPS apparently decided last year that the time for talking had finished and that it had to start making some major moves to expand its international operations, both in Europe and the Far East.

The first indication of a more aggressive approach in Europe came last autumn when the company revealed a reorganisation of its international management, setting up a new line of reporting rather than operating through the established main management structure.

Prior to the changes, European activities had been headed by a regional manager for the market, Mr Larry Long, based near Frankfurt in West Germany. He is now vice-president for Europe, reporting to Mr Don Layden, senior vice-president worldwide, who in turn reports directly to Mr John Rogers, UPS chairman. Coinciding with the management changes, the European administration office was moved from West Germany to London where it now has a staff of nearly 100 working under Mr Long.

Last year the company decided the time for talking had finished

Coupled with the restructuring of its European management, UPS also began significantly strengthening its intra-European aircraft feeder operations centred on its Continental hub at Cologne. The latter is linked directly with the US via daily UPS DC8 freighter flights to and from Newark.

Then, at the beginning of this year, UPS announced the acquisition of some half a dozen European parcel delivery companies previously established by freight forwarders to act as service partners for the US organisation.

Included among them was UK service partner Atlasair and its parent company Arkstar.

At about the same time, UPS also announced the acquisition of well-known UK-based courier organisation IML whose worldwide network included a strong presence in markets such as the Middle East Gulf and Nigeria.

"One of the major attractions of IML for us was its worldwide network. Another big attraction was the company's expertise in the international air courier business, particularly its use of on-board couriers which is something we had previously only been involved with to a limited extent," said Mr Richard Roth, UPS Europe business development director.

"We had drawn up our plans for international development through to 1992 based on doing most of it ourselves. The acquisition of IML enables us to speed up that development considerably and put us well ahead of schedule."

Other important UK developments over the past year have included linking operations into the highly sophisticated International Shipments Processing Systems developed by UPS for use worldwide in electronically processing and tracking its traffic.

UPS is investing some $1.4bn in a technology upgrade programme for the five years 1986-91 — latest move in that sphere involved the start in June on the construction of a new $80m global computer and telecommunications centre at Mahwah, New Jersey.

The three-storey, 400,000 sq ft facility is intended to form the cornerstone of the parcel company's worldwide computer network in 1991.

From the UK, UPS now offers an international expedited document delivery service to some 160 countries around the world and express movement of dutiable packages to around 40 countries.

However, asked about the UK domestic express parcels market, where the name of UPS is mentioned in connection with nearly every significant operator which may or may not be up for sale, Mr Roth was more cautious.

"We still have a lot of work to do on the international side and we are likely to be concentrating heavily on that sector over the next couple of years. That said, if a good domestic company acquisition opportunity came up, then I am sure we would consider it."

Phillip Hastings

TRACKING SYSTEMS

Customers kept in the know

FAST door-to-door movement of goods is in itself no longer sufficient to fully meet the exacting requirements of modern-day distribution and general logistics management.

Courier and express service customers now increasingly demand not only a rapid, reliable flow of goods but also accurate information on where their consignments are in at any one time. In addition, they want to be able to use the distribution process to gather management information which will help them run their overall business activities. Such considerations apply particularly where express service operators are involved with so-called Just In Time distribution systems. JIT demands information about delivery requirements and operations be passed quickly between all the parties.

To meet those needs, leading international express freight service operators TNT, DHL, Federal Express and UPS are all investing millions of pounds in the development of computerised cargo processing, tracking and general information technology systems. Similar investment, albeit on a slightly smaller scale, is being made by most medium-size express delivery companies — notable examples in the UK include Securicor Express, Parceline and Red Star.

The more advanced systems are now able to track shipments at various points in their door-to-door movement such as the pickup from consignor, arrival at the delivery service company's local depot, arrival/despatch at the main parcels sorting hub, arrival at the local depot nearest to premises of the consignee and then the final delivery itself.

At the same time, the level of investment and service sophistication required to meet present-day distribution demands means that express service operators and their major customers are increasingly looking to work even more closely together. In an increasing number of cases, service operators are now installing their own computer terminals and staff on customers' premises to further improve communication.

Some of the latest trends in the sphere of express industry information technology were outlined by Sir Peter Abeles, group managing director of fast-growing express and general distribution organisation TNT Worldwide, at an Institute of Logistics and Distribution Management conference in Brighton last month.

Express operators are increasingly using bar coding to identify parcels handled in their system. Left: Sir Peter Abeles, group managing director of TNT Worldwide.

As computerisation and automation of data collection grew, said Sir Peter, TNT was implementing EDI (Electronic Data Interchange). That enabled the company's European mainframe, for example, to exchange information with any of its clients' mainframes, allowing them to track their own consignments through the TNT transportation system.

"EDI also allows staff in each of our contract depots to talk electronically to their clients about delivery requirements, production runs and sales promotional information," said Sir Peter.

"Perhaps more importantly, it allows us to communicate constantly, to feed back information on collection and delivery times made, transit times, costs and an array of information important for the customer in order to run his business. The permutations are endless and in an organisation as widespread as ours, allow for worldwide data communications, tracking and EDI."

In developing sophisticated parcel tracking systems, though, express operators have to take into account a number of potential problem areas. There is, for example, the need to find a system which enables them to record every consignment or item quickly.

The "point of data capture" still tends to vary — it can be at the pick-up from the consignor's premises, at the collection depot or even at the main sorting hub. Obviously, the earlier the data is fed into the system the more complete the tracking procedure.

For operators picking up relatively small numbers of documents and packages from each customer it is comparatively easy to get the collection driver to collate and input the necessary information via some sort of handheld device or a unit in his vehicle.

However, express operators collecting large volumes of parcels tend to find that processing each item at the point of collection takes up too much time and as a result they prefer to establish the point of data capture at the collection depot.

Another factor increasingly having to be taken into account by express companies developing parcel tracking systems is the need to cover international, particularly European, activities as well as just UK domestic.

Increasingly express operators are using bar coding to identify parcels being handled through their systems. While bar coding does not necessarily solve all the problems of data collection in parcels distribution, within well-defined systems it can work effectively.

Parcels carrier Securicor Express, for example, is this year pressing ahead with the implementation of a bar code-based UK parcels processing project, SPARCS (Securicor Parcels Computer System). The £8m-10m system is being progressively phased in over the next five years as part of a general customer service improvement programme.

The first stage involved putting the company's depot at Hayes in Middlesex on line at the beginning of this year for trial purposes. The company's 120 UK branches are due to be put on line over the next year.

"Specially-designed bar-coded labels with unique identification will be scanned at the Securicor receiving depot. All the relevant information about that parcel will then be transmitted to a computer located at Securicor headquarters in Sutton for analysis and instant inquiry should a customer have a query," said a Securicor Express spokesman.

"Scanning the label on the parcel again when it leaves the receiving depot for local delivery completes the procedure, allowing speedy proof of delivery."

In addition to PODs (proof of delivery) and parcel tracing facilities, the SPARCS system will be used to automatically provide quotations, contracts, invoices and schedules. Approvals and authorisations will be given via terminals and processed electronically. Large volume customers will be able to link directly into SPARCS using EDI to transmit and to receive information.

The last feature highlights the way that express service operators are increasingly having to develop methods of computerised communication and tracking which are compatible with general EDI systems. So-called closed loop information technology systems which can only be used in connection with one particular company's activities appear to have only a limited future.

Coupled with the development of information technology systems is an increasing tendency for major international express companies such as TNT, Federal Express and DHL to position both systems equipment and staff actually on site at the premises of major customers.

Domestic express delivery companies, too, are following suit. Lynx Express Delivery Network, for example, offers customers access to its central information technology system via a facility called the Lynx Manager which provides them with computer terminals and software for their own offices. That equipment allows customers to fully automate the documenting of multi-package consignments, so improving despatch management procedures, saving time on documentation and reducing misrouting.

Phillip Hastings

A bitter fight

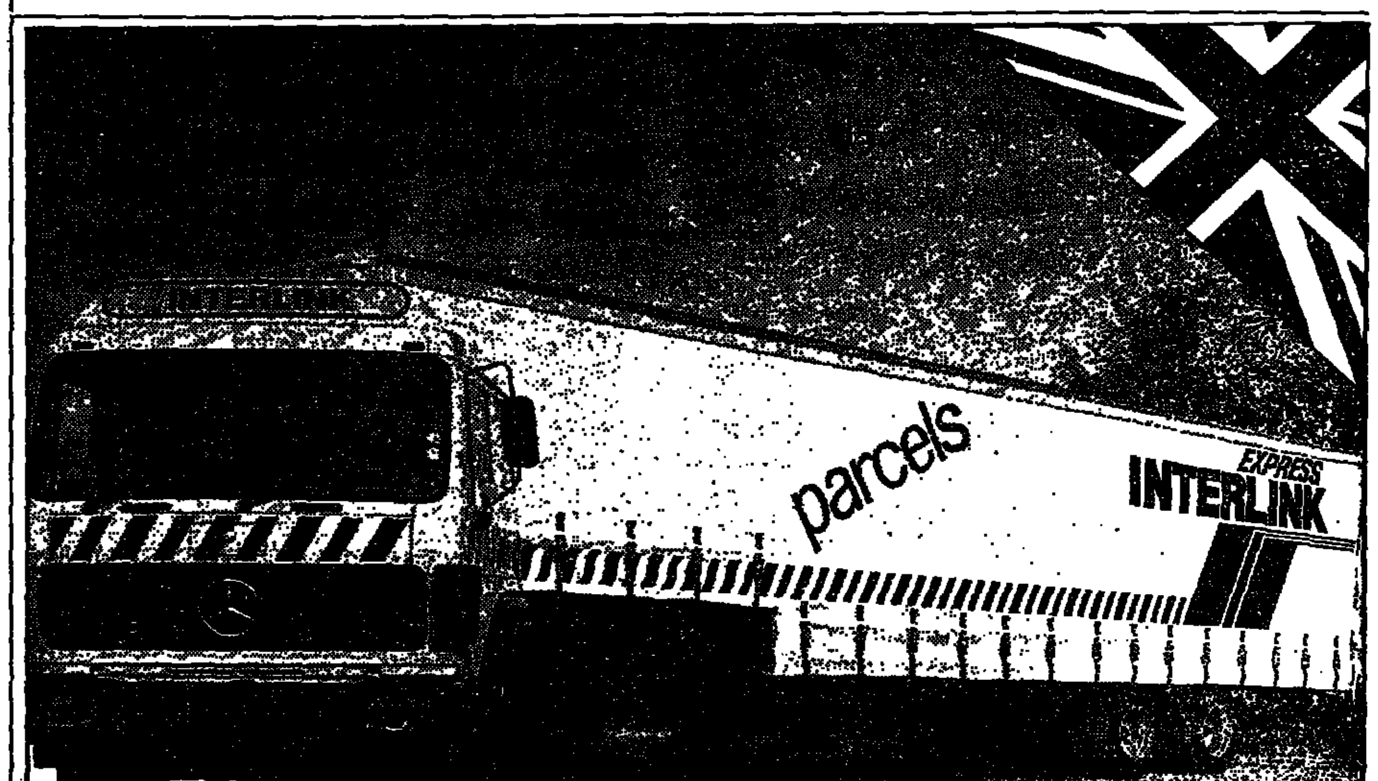
Continued from Page 1

pean competitors because everything in this industry is about investment and they don't have the throughput to justify it," says Mr Alan Waller, director of Coopers and Lybrand's UK logistics practice.

"They also can't compete on the marketing side — one manager of a medium-sized company told me recently that the advertising budget of one of the big four companies is bigger than his total turnover," Mr Waller adds.

"I think we will see an increasingly small number of increasingly large players, just as we have seen among, for example, food retailers in the UK, where there has also been growth in the overall market, but it has come to be dominated by half a dozen companies with 80 per cent of the throughput.

"This scenario is very threatening for the smaller companies, except that they can hope to be taken over by one of the big four, rather than simply put out of business. The alternative will be to survive as local or niche operators."



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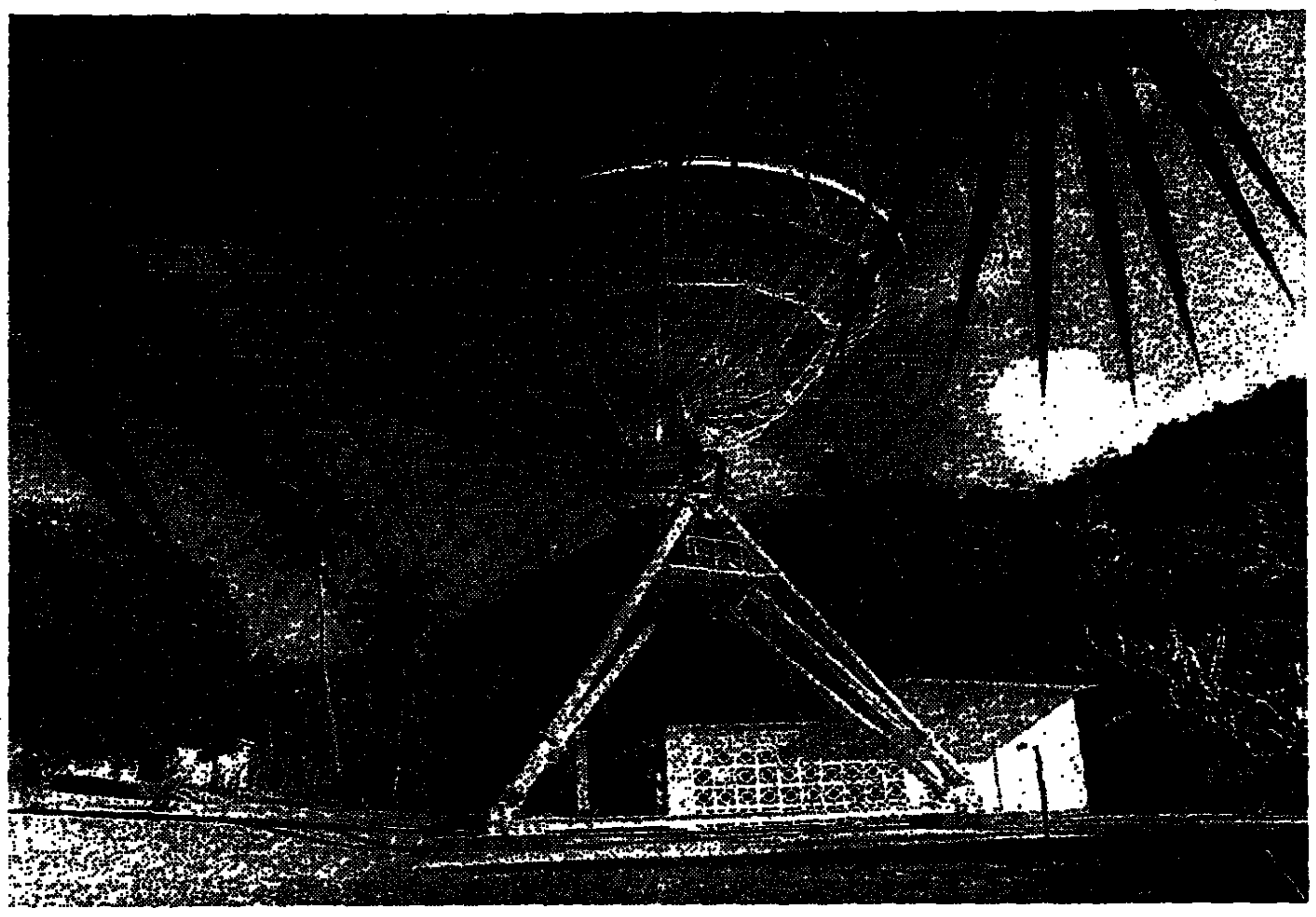
SECTION III

FINANCIAL TIMES
SURVEY

The international telecommunications industry presents a picture of relentless change in the coming decade as it continues to be one of the driving forces behind the growing integration of the world economy, reports **Terry Dodsworth**, Industrial Editor.



Island "earth station" in the Indian Ocean: Cable and Wireless equipment on Mahé in the Seychelles. *Picture by Glyn Genin.*

CONTENTS

□ *Editorial production: Michael Wiltshire, Phillip Halliday.*
□ *Graphics: Bob Hutchison.*

INTERNATIONAL Telecommunications

Pace of change quickens

IT IS hard to recall that ten years or so ago the development of the world telecommunications industry seemed reasonably predictable.

At that time, the revolution in digital systems was only just beginning. Fibre optic cables were a new technological phenomenon. Mobile commercial *telephony* was in its infancy. And the big service monopolies, from American Telephone and Telegraph of the US, to NTT in Japan, and British Telecom in Europe, reigned serenely over their closely-guarded empires.

During the last decade, however, the industry has been subjected to a wave of change that has radically altered both its structure and the products on which it is based. It has lost its traditional, slow-moving character.

The stable relationships that had *existed for decades* between operating companies and their chief suppliers have been swept away. Many public telephone groups have been thrust into a much more competitive environment; and as technology has shortened the investment cycle, new products have been injected into the industry at breakneck speed. All this has occurred in a relatively benign environment.

Telecommunications cannot boast the sort of growth rates that have been familiar in the computer industry over the last two decades. But the industry has enjoyed a period of strong activity on both the equipment and the service side.

Spending on telecommunica*tions products* has grown at between seven and eight per cent a *year during the late* 1980s, jumping from $88bn worldwide in 1986 to an estimated $113bn in 1990, according to figures from the Telecommunications Research Centre, the Sussex-based market research group.

Telephone operating groups have also enjoyed a golden period of expansion during the long economic growth cycle which began in 1981-82, with revenues from telephone calls rising at around 10 per cent a year *in many countries.*

In the mobile telephone sector, the industry has even produced a new growth area which measures up to the more exciting parts of computing: several companies in this field are doubling the scope of their business every year.

Market forecasts suggest that the telecommunications sector overall may lose some of its buoyancy in the first half of *the next decade, with growth* falling off to just under four per *cent a year.*

By then, many of the developed countries will *have* reached a plateau in their installation of digital switches and fibre optic networks, putting increased pressure on suppliers as volume levels off and prices erode.

But in the late 1990s, growth is *expected to swing up again* to present day levels as the *installation* of *complex devices* that mix data and voice on the standard telephone system gathers pace.

It is hard to predict what will happen to call volume in this period, since it tends to be sensitive to the general level of *economic* activity. Yet *it seems* certain that, in a broad sense, *the large public operating com*panies will in many countries be exposed increasingly to *the* sort of competitive challenge that has already hit the equipment suppliers.

Market deregulation is steadily expanding the scope of these *companies* to compete against each other, or for new *start-up competitors to emerge.* And as this liberalisation occurs *it is opening up new* service opportunities that give operating companies the chance to supplement their present revenues; value added services, data transmission, video conferencing and the like all generate increased use of the *basic* telephone network.

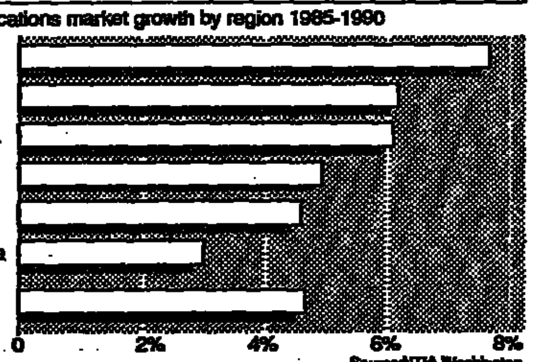
Within this picture of expansion *and rapid change over* the next decade, however, the way in which the *financial cards* will fall is much less predictable than in the past.

One of the uncertainties is the geographical pattern of growth in telecommunications. At present, the industry is totally dominated by the developed *countries. The US Department* of Commerce calculates, for example, that the main markets of the US, Soviet

Continued on page 2

World market

Telecommunications market growth by region 1985-1990



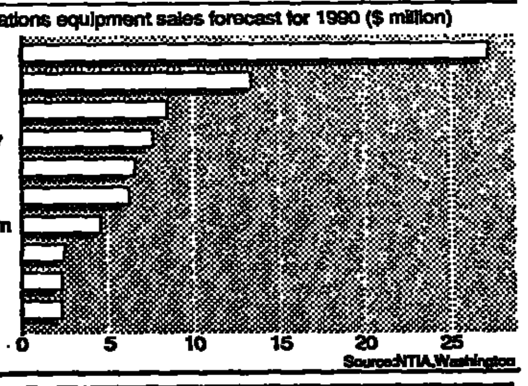
World's top 10 telecommunications equipment manufacturers

Rank	Company	Headquarters	1986 Sales $ billion
1	AT&T Technologies	US	10.2
2	Alcatel NC*	Belgium	8.0
3	Siemens**	West Germany	5.4
4	NEC	Japan	4.5
5	Northern Telecom	Canada	4.4
6	IBM	US	3.3
7	Motorola	US	3.1
8	Ericsson	Sweden	3.1
9	Fujitsu	Japan	2.1
10	Philips	Netherlands	2.0

*Combined equipment sales of Alcatel and ITT; **Incl. GTE's 1986 sales; excludes US switching and CPE. *Source: Arthur D.Little.*

World forecast

Telecommunications equipment sales forecast for 1990 ($ million)



INTERNATIONAL TELECOMMUNICATIONS-2

Terry Dodsworth looks at changes in the industry in the 1980s

Quest for more consolidation

MR PHILIPPE GLUNTZ, chief executive of Alcatel, Europe's largest telecommunications group, believes that most of the crucial steps in the present round of restructuring among the world's leading telephone switch manufacturers have been completed.

There is likely to be a period of consolidation, he argues, in which the predatory companies absorb their acquisitions and the industry settles into its new shape; but at the same time, he adds, manufacturers are likely to switch their attention to the need for rationalisation in other areas of telecommunications equipment production.

The main action throughout the 1980s has been unquestionably directed at re-organisation among the producers of public telephone exchange equipment. These changes have been driven by a combination of factors, some of them common to restructuring in other maturing, high technology industries.

They include the increasing cost of research and development, which companies are trying to offset across larger markets; the rapid pace of technological change, which adds to the cost of investment in research and new capital equipment; the reduction in production manpower as telephone systems become increasingly dependent on software; and the growth of competition in the wake of market deregulation.

These forces have had a particularly heavy impact in Europe, where telecommunications manufacturing has been traditionally organised along national lines. Among the changes are:

- The reorganisation in France which started when the Thomson group was forced out of the industry by the Government, with the bulk of activity taken over by Alcatel, the subsidiary of Compagnie Générale d'Electricité.
- Alcatel's purchase of the European business of ITT, the US conglomerate, in a deal which propelled the French group into the leading position in the European industry, with heavy interests in West Germany and Spain as well as France.
- Further reorganisation in France when Compagnie Générale des Constructions Téléphoniques was taken over by Ericsson of Sweden after a long battle with both AT&T of the US and Siemens of West Germany.
- AT&T's entry into Europe, an area from which it had been excluded historically through American anti-trust action that had split the US industry between AT&T in the home market, and ITT overseas. AT&T took a 50 per cent stake in APT, a jointly-held company with Philips of the Netherlands, a holding which it has subsequently increased.
- AT&T's deal this year in Italy, establishing a partnership agreement with Italtel. This is designed to bring AT&T technology to bear on the development of a new switch that will help to modernise the backward Italian telephone industry.
- The reorganisation of the British supply industry about 10 years ago in preparation for new digital switching systems. STC, at that time an ITT subsidiary, was excluded from the arrangements for developing and manufacturing the new range of switches for British Telecom.
- The subsequent UK move to bring in competition to GEC and Plessey, in the remaining suppliers, in the shape of Ericsson, the Swedish manufacturer.
- The merger of the telecommunications interests of GEC and Plessey in a joint venture a year ago. This has been followed by moves to eliminate the Plessey share through a joint acquisition of the Plessey stake by GEC and Siemens of West Germany. Over the longer term, the UK and West German companies are expected to come together in an integrated group.

The main action throughout the 1980s has been unquestionably directed at re-organisation among producers of public telephone exchange equipment. Above: engineers in Italy testing an Italtel digital exchange.

In the US, with a larger and more homogeneous market than western Europe, the industry has been under less pressure to rationalise. Nevertheless, there have been some significant changes over the last decade or so as AT&T's dominant supplier position has come under pressure from deregulation.

The most significant shift in the market has been the emergence of Northern Telecom of Canada as a strong competitor in America, with a substantial share of installations of the new generation of digital switches. This has helped the Canadian group forge ahead with its international ambitions, leading to significant export orders to Japan and its purchase of a 28 per cent stake in STC in the UK.

AT&T's main counter-move against the expansion of Northern has been the deal under which it will eventually absorb the switch manufacturing activities of GTE, the leading independent US public exchange producer. This will help AT&T maintain its leading position in the US, but it will continue to come under attack from overseas companies eyeing the US with relish. Stromberg-Carlson of Florida, for example, is now owned by GPT, the UK group, which is anxious to upgrade its switches from small rural exchanges to large urban equipment.

Several of these deals have also led to initiatives outside the field of public switching, which probably accounts for only a little more than a quarter of total equipment expenditure in the industry.

AT&T, for example, has invested in the manufacture of multiplexer equipment in western Europe as part of the deal with Philips. Alcatel has similarly established a position in US ancillary products in the US through the ITT purchase; and Siemens, which failed to take over GTE's switch production, acquired some of the US group's other telecommunications equipment operations.

STC has similarly moved to expand its position in non-switch areas following the moves which severed its connections with ITT. In cables, for example, it has expanded rapidly to take advantage of its strong international position in the production of underwater fibre optic cabling. In this area, it has recently brought a plant in Oregon in the US, which has won its first contract for a cable under the Pacific.

Some restructuring has also occurred in the office telephone exchange sector. This business is subject to similar economic pressures to those in the public exchange industry, with the increasing investment in research into digital systems, and the expansion of software content at the expense of hardware.

Cross-frontier deals in office switches include Siemens' recent agreement to acquire Rolm, the Californian-based producer, from IBM, the US computer company, as part of its drive into the US telephone market.

Siemens has also purchased Norton, the UK distributor of office exchanges; and a further attempt at reorganisation of the UK industry has been launched with BT's acquisition of Mitel of Canada, although this agreement has still to deliver on its promises. Elsewhere in Europe, Alcatel has brought together its own range of office exchanges with that of ITT to give itself of more complete range of equipment aimed at the full range of small and large companies.

Three areas stand out as primary targets for further reorganisation. Europe, for a start, is likely to provide plenty of scope as the plans for completion of the open internal market in 1992 gather pace. Many of the forthcoming deals are likely to be joint ventures rather than takeovers because of the way shareholding structures frequently make it difficult to push through clean acquisitions in continental countries. For example, STC recently reached such an agreement with SAT of France, in a transaction which will involve technology and marketing links in the transmissions field.

Second, is the issue of Japanese companies. The deregulation of the Japanese market, with the consequent ending of NTT's position as the monopoly telephone operating company, has undermined the traditional structure of the Japanese industry.

The big supplier companies, NEC, Fujitsu and Hitachi, have lost some of their close relationship with both NTT and each other; at the same time, they have seen additional markets opening up domestically among the new operating companies, and they have been pushing increasingly into export markets. Over time, they are expected to solidify their expansion into the US and Europe through acquisitions and joint ventures.

Finally, the explosive growth of mobile telecommunications will inevitably be accompanied by aggressive jockeying for position among the scores of companies moving into this field.

Motorola of the US has established a strong position in Europe, buying into the Scandinavian market with the acquisition of Storno in Denmark. European suppliers are also linking up in an elaborate network of cross-frontier alliances.

As the mobile market continues to grow and equipment prices fall, this restructuring is expected to continue around the world.

Public telecommunications operators

Six key questions

Report by Hugo Dixon

THE COSY monopolistic environment in which the world's public telecommunications operators (PTOs) have grown up is under threat from the twin forces of liberalisation and changing technology.

This process, in turn, is encouraging the PTOs to expand beyond their traditional fiefdoms. Doubts, however, remain both over their willingness and ability to attack new markets with entrepreneurial zeal.

Although the world-wide trend to deregulate telecommunications markets is the most important feature changing the landscape, it is not without exceptions. Since the Socialists returned to power last year, France has started to back-track on freeing up telecommunications markets.

France has also emerged as the key player within the European Community opposing liberalisation. It is organising other nations such as Italy, Spain and Belgium in an attempt to try and dilute the European Commission's plans in this area.

Even those countries committed to liberalisation have adopted markedly different approaches, which themselves are subject to constant revision.

The result is that the world now has four main models for structuring telecommunications markets in addition to the traditional monopoly model. The three most radical models are those of the US, the US and Japan.

A lesser radical and newer approach is being promoted by the European Commission. The first test case of this fourth model is West Germany, whose new telecommunications reform became law on July 1st.

Attitudes on six key questions differentiate the four models:

■ **Should PTOs be privatised?**

Advocates of privatisation claim that it is only by putting PTOs on a proper commercial footing that they can be made more entrepreneurial and efficient.

Privatisation was never needed in the US, because the PTOs were always in the private sector. But, in the rest of the world, there has been a division between the UK and Japan which have embarked on privatisation and most of the rest.

In Germany, for example, privatisation of the Bundespost was never much of an option because public ownership is written into the constitution. Instead, it has gone for a half-way house, which involves splitting the Bundespost into three parts – Telecom, Post and Post Bank – and making each a corporation. The idea is that this new structure will be enable Telecom to be more dynamic than if it remained part of the civil service.

■ **Should competitors be allowed in the basic network?**

Britain, the US and Japan allow competition on the basic network on the grounds that it encourages innovation and keeps downward pressure on tariffs. The EC approach, however, is that the basic network should remain a monopoly in order to fulfil social objectives such as providing a uniform service across each country.

Even the three liberal nations, however, have gone slightly different ways. The UK only allows one competitor to British Telecom – Mercury Communications. This is on the theory that BT would find it easier to squash a multitude of small competitors than a single large one. The whole duopoly policy is up for review at the end of next year with the expectation that more competitors will be allowed.

The US has allowed a free-for-all in long-distance

Continued on Page 4

Telecommunications market forecasts

Values in $bn	1988	1989	1993	CAGR* 1989-93
Single Line Phone	1.6	1.6	1.8	3.0%
Data Comm Equipment	6.3	7.4	11.5	11.7%
Switching Equipment	6.6	6.5	6.9	1.5%
Call Processing Equipment	1.1	1.3	1.9	10%
Facsimile Machines	2.3	3.4	6.7	18.5%
Video Conferencing	—	0.1	0.2	25.7%
Public Equipment	6.3	6.6	9.0	8.1%
Public Services	124.8	127.9	144.6	3.1%
Cellular Radio	3.6	4.7	8.7	16.6%
TOTAL	152.6	159.5	191.3	4.6%

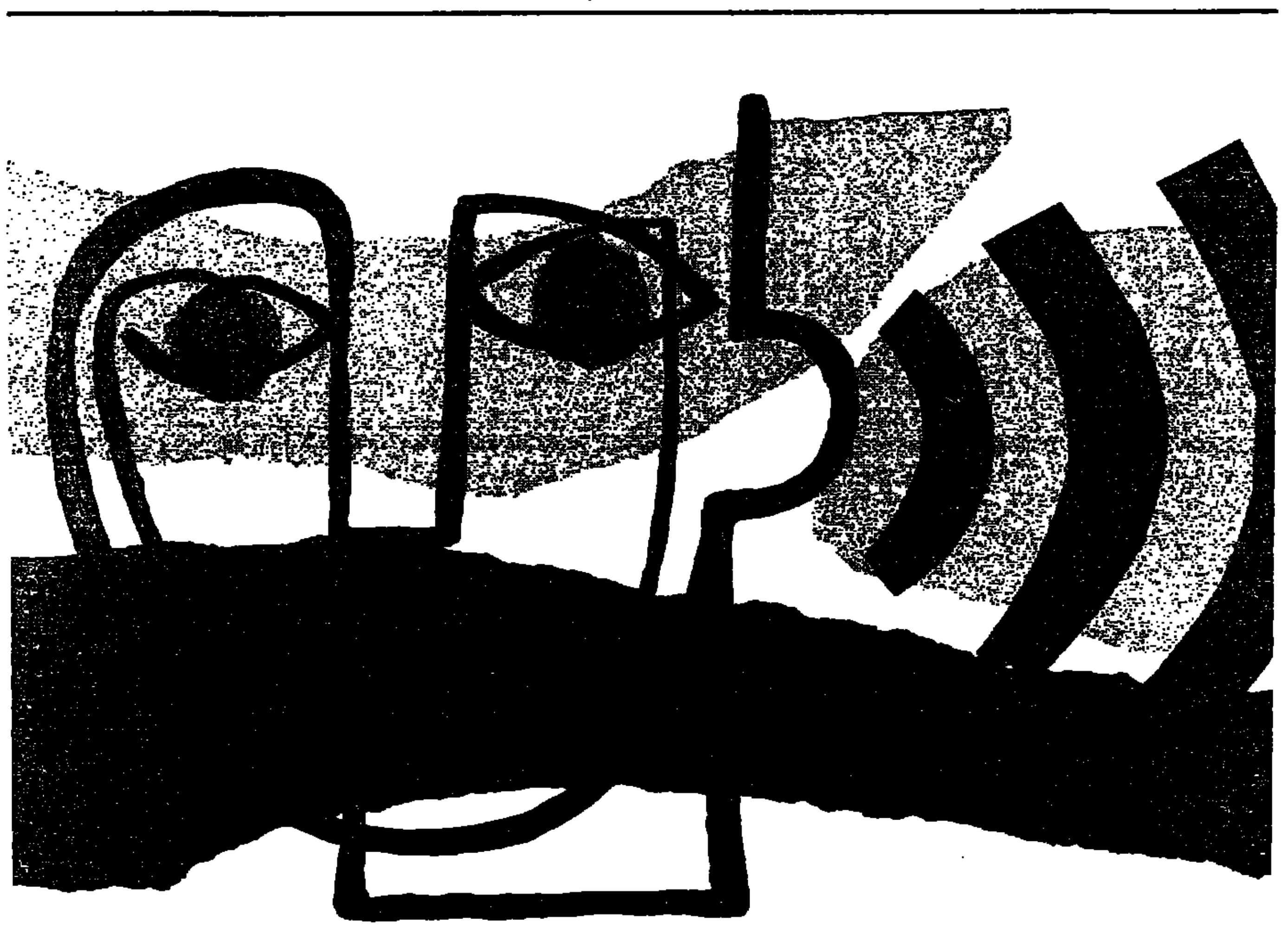
*Compound annual growth rate. *Source, Dataquest, 1989*

Leading world telecommunications markets

US$ million in 1986

Country	1986
United States	24,009.0
USSR	8,400.0
Japan	7,080.0
West Germany	5,898.0
France	4,482.0
Italy	3,916.0
United Kingdom	3,146.0
Canada	1,885.0
China	1,448.0
South Korea	1,422.0
Spain	1,403.0
Switzerland	1,390.0
India	1,308.0
Australia	1,204.0
South Africa	964.0
Brazil	872.0
Mexico	851.0
Sweden	846.0
Austria	766.0
Taiwan	665.0
Indonesia	640.8
Argentina	632.0
Saudi Arabia	550.8
Netherlands	544.7
Hong Kong	521.4
Norway	499.0
Belgium	468.0
Colombia	460.0
East Germany	426.4
Venezuela	416.4
Singapore	313.2
Finland	302.1
Pakistan	296.6
Greece	286.5
Turkey	268.7
Denmark	259.8
New Zealand	241.1
Iran	234.0
Poland	227.5
Bangladesh	211.6
Egypt	210.4
Hungary	197.5
Israel	197.0
Iraq	178.6
Yugoslavia	161.4
Czechoslovakia	144.7
Portugal	121.4
Algeria	109.4
Syria	104.2
Unted Arab Emirates	102.4

Source: TRC



The pace of change quickens

Continued from page 1

Union, Europe and Canada account for about 90 per cent of total market demand for telecommunications equipment at present.

Yet there is enormous capacity for expansion in developing countries if they can only harness sufficient resources. The disparities between the advanced and poorer countries are underscored by the installed base of telephone lines.

The US had around 121m lines in 1986, against 118m in the European Community and 46m in Japan. But India had only 3m to serve its vast population and Brazil just 7m – less than South Korea.

New initiatives to tackle these shortages and under-investment are now being developed by the World Bank and the International Telecommunication Union, but it is by no means clear what impact these will have.

Similarly, Eastern Europe and the Soviet Union have the potential to emerge over the next decade as much bigger telecommunications markets than they have been in the past.

The USSR, for example, has only about 30m lines at present, a ratio of just under 11 telephones for every 100 people.

Hungary has only 7 lines for every 100, and East Germany under 10 per 100, figures which compare to 43 per 100 people in West Germany, or 64 in Sweden, believed to be the highest level of penetration in the world.

In the years of the cold war, collaboration between the East and Western Europe has been limited, and to some extent was intensified by the tough moves on technology transfer initiated by the Reagan Administration in the US. But several Western countries have won supply contracts to Communist countries recently, and the reform movement that is spreading throughout this region is expected to lead both to more equipment exchanges and an an increase in telephone traffic.

Another uncertainty hanging over the next few years concerns the regulatory environment. The idea of injecting more competition into the industry, initiated in the US in the 1970s, is now sweeping through the developed world and beginning to affect developing countries as well.

The pace of this change, and the precise way in which it will affect different areas remains to be seen, however. At the moment, deregulation is still in a highly experimental stage. Indeed, liberalisation is more properly seen as a process of re-regulation, as Governments try to develop new rule books that allow competition to emerge at the telephone operating company level without undermining the principle of universal service.

The problem here is that it has only been possible in the past to ensure universal access to telephones by subsidising the cost of line installation to remote areas with the revenues from more profitable businesses.

But if the big operating companies are to be asked to accept universal service responsibility, to what extent should competitors be allowed to come in and compete in the more profitable areas of the business? And if their profits are under attack in the profitable segments of their business, to what degree should they be allowed to diversify into other products?

Governments have thus been faced with a precarious balancing act in trying to push the industry into a more competitive environment – and sometimes the results have looked bizarre. For example, both the UK and the US have slipped into substantial balance of trade deficits in their equipment manufacturing industries as a result of deregulation – at a time when their Governments have been claiming that liberalisation would make industry more competitive.

In the US, this has led to particularly heavy criticism of the deregulation process, since the seven regional Bell operating companies, which had the capital and the know-how to enter the production area in competition with AT&T, were deliberately banned from this area.

On the other hand, the British and US industries have benefitted from invisible earnings from telephone services as the operating companies have become more competitive internationally.

Even on the pure operating side, there are criticisms: many sceptics claim that services have not improved under liberalisation, and some claim they have gone backwards.

In Europe, these issues are particularly complex, since every country in the region has developed its own procedures for its domestic telecommunications industry.

The European Commission has now taken the lead in trying to bring some order into this Tower of Babel, based on the twin precepts of breaking down competitive barriers to trade, while building a homogeneous structure in Europe that will make it easier to conduct business in the region.

Deregulation, however, will not be the only factor determining the shape of the industry over the next few years. Just as important is the technology for running the telecommunications system.

The impact of technological development, and how this meshes with the regulatory environment to create change, can be seen quite clearly in the development of mobile telephones in the last few years.

When the car telephone industry was first launched in the early 1980s, scarcely anyone outside the industry took any notice; and many insiders totally misjudged the impression mobile 'phones would make. Yet today, this part of the industry is attracting extraordinary enthusiasm, from operating companies and manufacturers alike, as highlighted on page 6 of this survey.

Which companies are likely to be the gainers from this spate of change?

On the production side, the industry has seen the emergence of a ten large-scale, increasingly international groups.

These are fairly evenly spread across the developed world, according to US Commerce Department figures, with three from the US (AT&T, IBM and Motorola), four from Europe (Alcatel, Siemens, Ericsson and Philips), two from Japan (NEC and Fujitsu) and one from Canada (Northern Telecom).

This structure, however, could easily change – indeed, it is evolving at this moment with the Siemens attempt to link up with GPT in the UK, and the West German company's equally ambitious effort to take over Rolm in the US.

At the same time, these companies are going to be exposed to new competition from up-and-coming groups in the mobile telephone field, to say nothing of other manufacturers who are breaking into sophisticated new areas of transmission and network control.

It will be harder to rationalise and restructure the big public service operating companies: their monopoly over basic, fixed-line voice traffic is being maintained in many countries; and they are typically State-controlled, which puts them beyond the reach of takeover or mergers.

Nevertheless, these companies are likely to see their position eroded over time. Competition is being allowed in the fast-growing areas of data manipulation and transmission. Independent satellite services are being licenced.

All in all, the industry presents a picture of relentless change over the next decade.

Ten years ago, few would have forecast such a period of explosive activity. But it now seems indisputable that telecommunications will continue to be one of the driving forces behind the growing integration of the world economy.

Airborne communications: a business travellers using a British Telecom Skyphone on a British Airways 747.

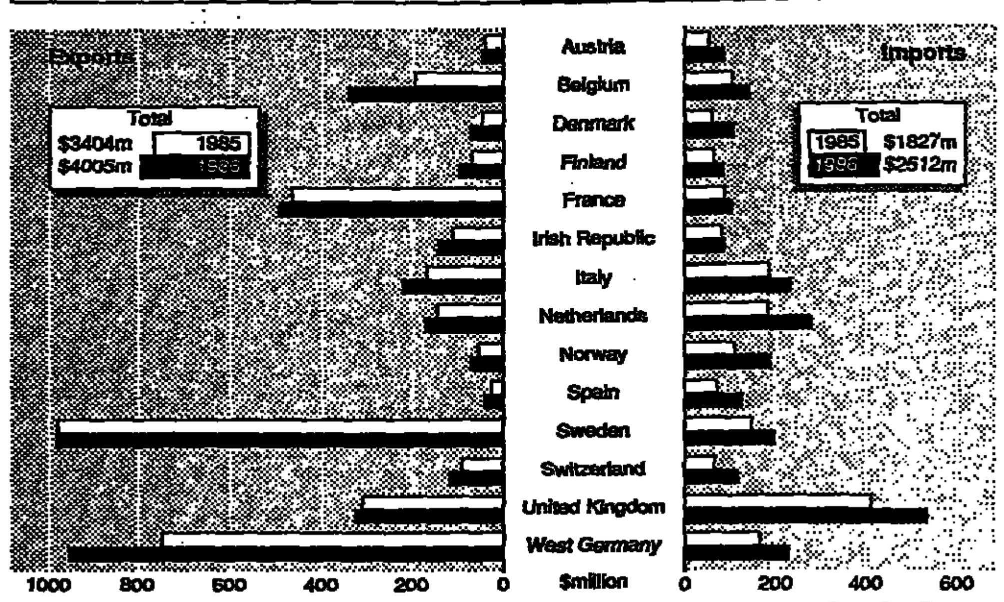
INTERNATIONAL TELECOMMUNICATIONS-3

Terry Dodsworth examines the big increase in telecommunications trading

Japan moves ahead rapidly in world market

COLOUR VIDEO PHONE: while video phones now transmit black and white still photos, the Panasonic unit pictured, left, on display at an advanced technology exhibition in Tokyo, transmits movement in colour. The phone is still several years away from being ready to market. Also pictured, centre, is a robotised production line for electronic equipment at Osaka.

European telecommunications equipment



Source: Benn Electronics

WELL INTO the post-war period, trade in telecommunications products followed the trends that had been set in the days when the American and European industrial systems dominated the world.

Most of the big manufacturing nations were virtually self-sufficient in mainstream equipment such as public telephone exchanges and cables. Many of them were big exporters to the developing world or their former colonies. Interchange of goods between the leading manufacturing countries was not significant enough to raise fears of industrial damage in the recipient countries.

As in many other high technology products, however, this neat balance of power has been deeply upset by the rapid emergence of Japan as one of the world's leading producers.

Japanese companies have quickly become the top exporters of telecommunications products, moving into markets all over the world. In the space of a decade or so, the Japanese industry has established an exceptionally strong position in neighbouring countries in the Pacific; and from there they have swept aggressively into the US and progressively into Europe.

The trade figures speak for themselves in the US, where a small surplus of $275m on telecommunications products back in 1982 was reversed into a hefty deficit of $2.5bn in 1987 – enough to come close to cancelling out the hefty $2.8bn surplus on computer trade. Some $2.2bn of this deficit was with Japan, followed by $444m with South Korea.

South Korea and Taiwan are also achieving big export successes

Conversely, figures published by the EC show a substantial US surplus with most European countries, amounting to a total of ECU408m in 1988.

Indeed, the statistics indicate that European manufacturers are now being squeezed between the US industry and the Japanese. Since 1984, the region's deficit with Japan has soared from ECU431m to ECU 1.2bn; and overall, the EC's surplus in telecommunications equipment has slipped sharply from ECU1.2bn in 1986 to ECU0.1bn last year.

The strongest exporters in Europe are West Germany, with overseas sales in 1987 of $1.1bn, according to Telecommunications Research Centre, the market research group. Sweden, the home base for Ericsson, the world's most internationally-minded telecommunications equipment manufacturer, is the next largest in the region with exports of $851m.

But the big surprises in exporting performance in recent years have been South Korea and Taiwan. Each of these two South East Asian countries achieved higher exports in 1987 than the UK, with sales of $460m and $398m respectively.

The issues raised by the arrival of Japan and these new Far Eastern competitors on the world scene have been underscored by the recent row over the terms under which Motorola, the US telecommunications and chip company, received access to the cellular mobile telephone market in Japan.

Motorola's entry into the Japanese telecommunications industry was originally presented as a breakthrough in attempts to open up the Japanese market to compensate for the hefty American imports from Japan. But the American company's dissatisfaction with the terms of the agreement led to a full-scale row which was only sorted out by heavy political intervention.

The Motorola case followed a similar tussle in Japan involving Cable and Wireless, the UK telephone operating group, two years or so earlier. At issue then was C&W's participation in a planned new international telephone company that was to compete with KDD, the established Japanese monopoly.

The bid from the C&W consortium was almost superceded by a rival offer from a group of all-Japanese companies; and a compromise which allowed both groups to set up new services was only reached after top level political intervention by Mrs Margaret Thatcher and the then President Reagan.

It is significant that both these incidents should have involved the US and Britain. These two countries have been in the forefront of the moves to liberalise telecommunications trade by opening up their domestic markets to more competition. The consequent influx of imports has made producers in both countries – along with their respective Governments – much more aggressive about exports and winning access to overseas markets.

Similar conflicts have also been simmering between the US and the European Community over the last three years. The disagreements link into the more general trade arguments that have gone on periodically across the Atlantic – telecommunications trade has been a useful drum to beat when either side has been complaining at misuse by the other.

Japanese exporters are moving aggressively into Europe and the US

Nevertheless, the arguments have reflected significant disagreements over market access which arise from increasing attempts to trade across frontiers. The US has been deeply concerned by the problems that American Telephone and Telegraph, the leading American manufacturing company and long-distance operator, has faced in its attempts to form production alliances in Western Europe.

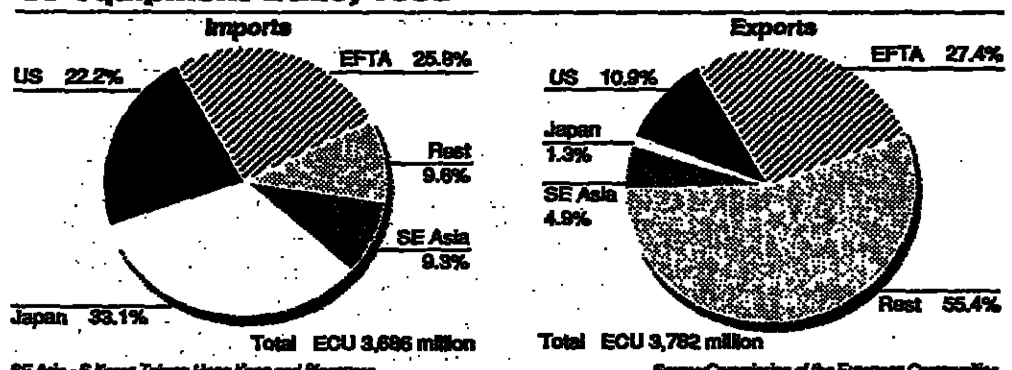
The Europeans have been similarly unhappy about the failure of European companies to make a serious impact on the market in large telephone exchanges in the US.

Unlike telephone sets and satellite equipment, where the Japanese producers have made their initial inroads in America, central telephone exchanges require elaborate technical licencing procedures to be sold in the American market – and the Europeans claim that these have been used to make it difficult for them to set up in competition with the indigenous American producers.

Further arguments are now threatened in the area of value added services, where the US is

Continued on page 4

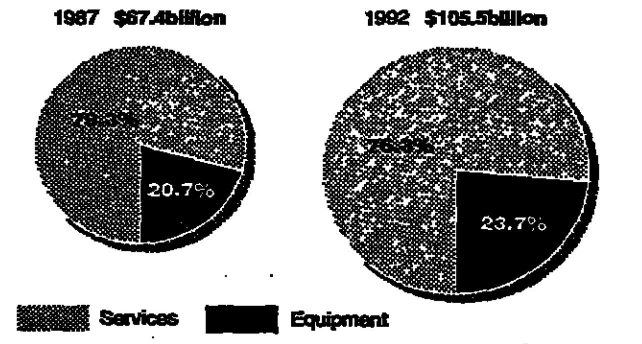
EC equipment trade, 1988



SE Asia - S.Korea, Taiwan, Hong Kong and Singapore

Source: Commission of the European Communities

European public telecommunications market



Source: Dataquest

Integrated services digital networks

Global standard delay

THE ABILITY to use your existing office telephone line to make a telephone call and send a facsimile or data message simultaneously may seem an attractive proposition. At least, the telephone companies in the US, Europe and Japan are hard at work trying to persuade customers that such services are a solution for many business problems.

But as the telephone companies and the equipment manufacturers continue to pour money into developments of these services – over $2bn so far – there is growing concern that they have been developed for the convenience of the telephone companies rather than the needs of business users.

The acronym for such services, ISDN (integrated services digital network), has been widely and jokingly referred to as "integrated services I don't need" and, more recently, services "I still don't need." Unfortunately for the telephone companies, in practice that appears to be the case.

In the US, companies are successfully using ISDN on a local basis

The most significant reason seems to be that ISDN services are only available in isolated geographical pockets, even in the US where all the regional Bell Operating companies have heavily committed themselves to giving their business customers ISDN. That is because ISDN signals can only be transmitted using the newer digital telephone exchanges, not the older analogue ones.

Although most of the world's telephone companies are investing heavily in digital technology, it will be some time – if ever – before true end-to-end digital services are available.

That problem has been recognised by NTT, the local telephone operating company in Japan. To try and overcome the problem of a slow take-up of ISDN services, NTT has decided to accelerate its programme for supplying ISDN services nationwide.

NTT began offering ISDN services in Tokyo, Osaka and Nagoya in April 1988, and by April 1989 had only 1,000 customers. Now NTT is planning to introduce a nationwide service by April 1990, at least two years ahead of the initial target date.

As a result of the accelerated roll-out, NTT is predicting it will have 100,000 customers for its ISDN services by the end of 1990.

An additional factor hampering the take-up has been delays in setting the standards to which services will operate – a full set of standards will not be ready until 1992 at the earliest.

That has hindered the implementation of both national and international services, as users have been reluctant to invest in equipment which could be obsolete in a few years time.

In spite of standards delays, telephone operators in the UK, West Germany, France and Italy are looking at plans to link their national ISDN networks together internationally. British Telecom in the UK, for example, plans to have an international telephone exchange handling ISDN calls in service by the first half of 1990.

McDonald's claims the first building in the US dedicated to ISDN

In other countries such as the US, companies that are using ISDN most successfully are doing so on a local basis, by linking local sites together. McDonald's, the US hamburger group has linked six local sites together using ISDN in the Chicago area, including the Hamburger University – the McDonald's training school at Oak Brook, Illinois. Showpiece of the network is the McDonald's headquarters building, which claims to be the first building in the US to be completely dedicated to using ISDN.

One of the main advantages of using the ISDN format pinpointed by McDonald's is more to do with computer wiring than the transmission services marketed by the telephone companies.

With ISDN both the phone and the computer terminal are plugged into the building's internal telephone network, and so can be unplugged and moved with their owner – considerably cheaper than having to rewire the computer terminal every time someone changes desk.

However, many onlookers believe the McDonald's experience will be a relatively isolated one, because there is a growing trend for companies to wire up their personal computers with local area networks, obviating the need to use the telephone network. Because suppliers of local area networks are not constrained by the standards problem facing the telephone companies, and are selling their wares in a highly competitive environment, many of their products have sophisticated features which the telephone companies will be unable to match on ISDN.

Because the telecommunications companies have been slow in setting the standards, they have been outstripped by political as well as technical developments. In particular the growing forces of liberalisation in the telecommunications industry worldwide – with the two main forces of the US and the UK leading the way – have enabled large national and multi-national companies to set up their own private telephone networks, by-passing the telephone operating company. As a result, the telephone companies are moving down market and targeting the smaller businesses for their ISDN services.

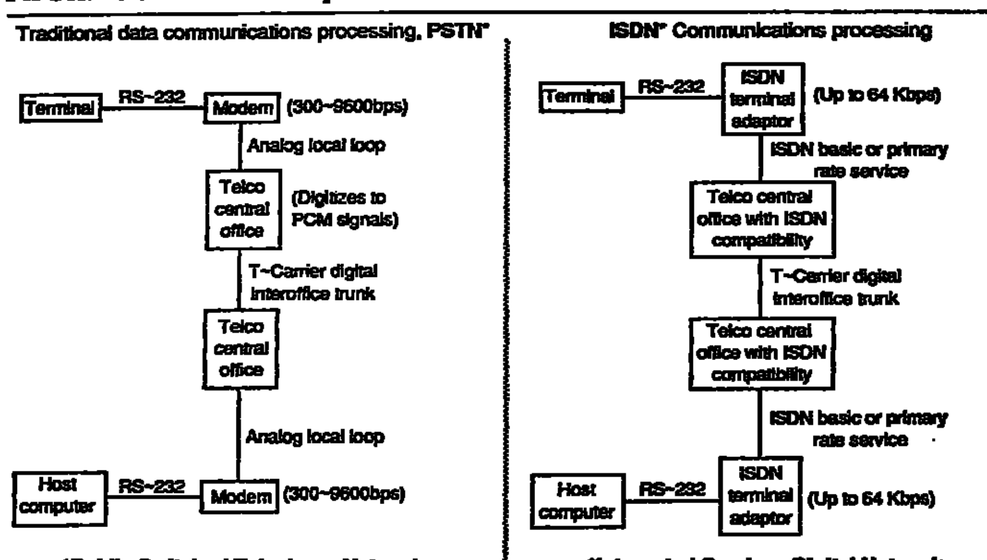
In addition, as ISDN services allow only small amounts of data to be transmitted down the telephone lines, companies with large data requirements are turning to other methods of transmitting their computer information, such as high capacity dedicated lines. Telephone companies, particularly in the US, Japan and the UK are bundling together ISDN lines to give much higher transmission speeds to encourage large data users to use ISDN.

In spite of the initial slow take up, however, most analysts are confident that ISDN services will take off. Technology research organisation, Dataquest, predicts that worldwide it will take until 1993 before 100,000 lines of ISDN are in use. But by 1997 there will be 600,000 lines installed.

Whatever the interest now being shown by business customers in ISDN service, the telephone companies are unlikely to drop their plans for the service. One of the main reasons for that is that they can provide them by putting advanced electronics on the end of existing cables – they do not have to dig up all the cables in the ground to offer the services. With between 60 and 70 per cent of the telephone network operators' assets installed underground, they will be promoting their ISDN services for some time to come.

Della Bradshaw

Architectures compared



*Public Switched Telephone Network

*Integrated Services Digital Network

Source: Market Intelligence Research Company

■ TELEPHONES PAST AND PRESENT: an engineer at Martlesham research laboratories in Suffolk, uses three-dimensional computer-aided design to create a new-style handset. ■ In contrast, (right), Dr Thomas A. Watson, is pictured in 1931, holds a replica of the first telephone made by him for Alexander Graham Bell in June, 1875

Optical fibre multiplexers

Less cable, more capacity

UP TO five years ago, the focus for telecommunications companies – both operating companies and equipment manufacturers – was on telephone exchanges. For most telephone operating companies the exchange was the single largest item of expenditure.

But the economics are changing, largely due to developments in optical fibres. Because the cost of optical fibre cable is falling it can be used in local networks as well as the main backbone networks. And because it provides a much greater capacity than its copper counterpart, telephone companies no longer have to site their exchanges near their customers – they can connect them via optical fibres to exchanges many miles away and still have the capacity to provide sophisticated services.

But one other development, combined with optical fibres, is also changing the face of the traditional telephone network.

Developments in micro-electronics have produced a range of optical fibre multiplexers, which squeeze a number of telephone calls down a single telephone cable. Combining the huge bandwidth of the fibre with the ability of the multiplexer to use one fibre for a number of calls, the telephone companies are now realising they can by-pass small local telephone exchanges.

That network architecture is particularly appropriate in areas of sparse population, such as parts of North America and Australia, where there is a considerable distance between towns and cities.

This technology marriage is initially being used by telephone companies to bring a range of services to their top business customers although this combination of multiplexer and optical fibre could eventually curtail the market for local telephone exchanges.

In the UK, for example, British Telecom (BT) is installing a service called Fas (flexible access system) which combines optical fibres, multiplexers and software controlled telephone exchanges. This combination of optical fibre cabling, multiplexers and specialised telephone exchanges (or cross connect switches) enables BT and its peers to give specialised leased lines services – dedicated links between two pre-determined buildings.

Multiplexers are changing the face of the telephone network

As the exchanges are controlled by their software, which can be re-programmed as often as the customers' demands change, the lines can be used for a range of different services.

They can be changed on a daily, weekly or monthly basis. During the day, for example, the lines could be used for ordinary telephone calls, while at night they could be converted into the communications links for surveillance cameras. Several lines could be squeezed together to give a videoconferencing link.

BT has installations in the City of London, and expects to have 650 customers using the optical fibre services by the end of this year. It is also installing a service in London's Docklands this year. And it has already announced a £200m extension programme to introduce the service to other important business centres, including Birmingham, Manchester and Edinburgh.

By the mid 1990's about 2.5m of BT's exchange lines – about 10 per cent of the total – will be using optical fibre rather than copper for cabling. BT believes that by that time the Fas system will also be so widespread that companies will be using the leased line optical lines as the backbone over which to run their private telecommunications networks.

In the US the telephone companies are selling Fas customers the equipment and software so that they can re-programme the distribution of the lines themselves. In the UK, however, BT is carrying out the adaptations from its own network management centre.

BT is not alone in the recent drive to bring optical fibre to the doors of its biggest customers. The idea of flexible access systems was conceived in the US. AT&T introduced such a system in 1975, but based on copper cabling rather than the more modern optical fibre.

AT&T is still one of the world's leading manufacturers of Fas type systems, and as well as selling equipment to the Baby Bell telephone companies in the US, it has also made inroads in Europe with its technology. By next year France Telecom will be operating a leased line Fas system using AT&T technology.

Two Scandinavian companies, Ericsson and Nokia, manufacture similar systems and Ericsson is installing a leased line Fas system for the Swedish telephone company Televerket. In the UK, STC and the joint venture company GPT (GEC and Plessey Telecommunications) have supplied the Fas system to BT. West German manufacturer Siemens is also selling the STC system, and is installing it for the Dutch telephone company.

Systematic installation of optical fibre in the high volume long distance telephone network has been going on in the US, Japan and throughout western Europe since the beginning of the 1980's. But that has been accelerated in countries such as the US and the UK by the introduction of competition in the supply of telephone services.

Lines can be changed on a daily, weekly or monthly basis

In the UK, for example, the introduction of an all-fibre core and local network by Mercury Communications, has forced BT to emulate its competitor in the more rapid introduction of fibre in its network, in order to retain its blue chip customers.

Although the telephone companies are targetting big businesses for Fas services, they could soon be on offer to smaller companies as well, particularly in the US.

In offices which have a number of tenants, Fas systems could be used by the telephone companies as a way of giving a rapid service to new customers. If an office that houses a firm of solicitors today is taken over by, say, a stockbroking firm tomorrow, the telephone company could quickly reform the telephone lines from its control centre to make sure the new customers get the service they want.

Della Bradshaw

Questions for public operators

Continued from Page 2

traffic. However, local traffic continues to be a monopoly of the "Baby Bells".

In Japan, there are two competitors to the traditional international operator, KDD. There are also about 40 competitors to NTT on domestic traffic. These have proved extremely effective at winning market share on long-distance routes between Japan's leading cities – Tokyo, Osaka and Nagoya – partly because they do not have to offer a nationwide service, allowing them to cherry pick.

Debate in Japan now centres on whether NTT should be split up into several regional companies in much the same way as AT&T was in the early 1980s. It is unlikely this approach will be adopted in Europe because of the relatively small size of its individual markets. However, if one looks at the European Community as a single entity, it is possible to argue that it already has a regional structure.

■ **Should there be competition on alternative networks, particularly mobile communications?**

The US approach of licensing two cellular operators for each area – the traditional PTO and a private competitor – looks like becoming the norm in the much of the developed world.

However, the UK is going significantly further than this, by deciding to license two or three operators in addition to its existing operators, Cellnet and Vodafone. As mobile communications become more established elsewhere and governments see the vast profits being made through them, decisions to inject more competition on these lines cannot be ruled out.

■ **Should private companies be allowed to resell capacity on lines they have leased from the PTOs?**

Permitting resale can encourage a new class of private operators to emerge, as the US found earlier this decade. The UK has recently decided to follow suit.

In Continental Europe, however, there are worries that allowing resale of capacity could undermine the basic network monopolies. Germany has therefore decided to stop private companies selling space on their leased lines for voice traffic, though it is permitting resale of capacity for basic data transmission.

The European Commission is taking an even more conservative line. Nations will be permitted to maintain monopolies on basic data transmission until 1993 to allow their PTOs to adjust the tariffs on their packet-switch networks.

■ **What method should there be for controlling the PTOs' prices?**

The UK has pioneered the concept of price caps, under which a basket of BT's main prices must fall by 4.5 per cent in real terms each year. The idea of this approach is that it gives the PTO an incentive to make productivity improvements because it can pass on to its shareholders any gains in excess of 4.5 per cent.

The US now looks like adopting this approach for regulating AT&T's prices, and there is interest in using a similar technique for the Bundespost. However, the more traditional method of protecting the consumer by making sure a PTO does not make excessive profits will be retained for the Baby Bells.

■ **How should value-added or enhanced services be regulated?**

Here the essential question is how to ensure that private companies can compete fairly with the PTOs, given that the latter control the networks.

The traditional US attitude has been to require the Baby Bells to offer enhanced services from separate subsidiaries to ensure fair play. However, regulatory authorities have come to the conclusion that this requirement is restricting the growth of enhanced services, and a new concept called Open Network Architecture is therefore being adopted.

The European Commission has its own version of this, called Open Network Provision. It remains to be seen whether these approaches are effective in promoting competition.

This world-wide trend to liberalisation is prompting the PTOs to expand beyond their home markets. The most aggressive in this process have been the US PTOs and BT, which stunned financial markets earlier this year by paying $1.5bn for 22 per cent of McCaw, the US cellular group. Even the Bundespost, which until recently had a reputation for being the staidest of Europe's PTOs, has decided to open up five offices abroad to spot business opportunities and market its services to big corporations.

However, entrepeneurialism remains foreign to most PTOs and there are doubts about whether they have the ability to manage far-flung operations with different cultures.

The world's PTOs also still seem bound together by a club mentality. They do not wish to offend their counterparts in other countries with which they are used to dealing on a gentlemanly basis.

In Europe, for example, it is only by PTOs competing head-on with each other that international phone prices are likely to fall. But ask BT whether it is willing to lease lines across Europe to compete directly with France Telecom, Sip and the Bundespost, and you will get a very guarded response.

World trade rises

Continued from Page 3

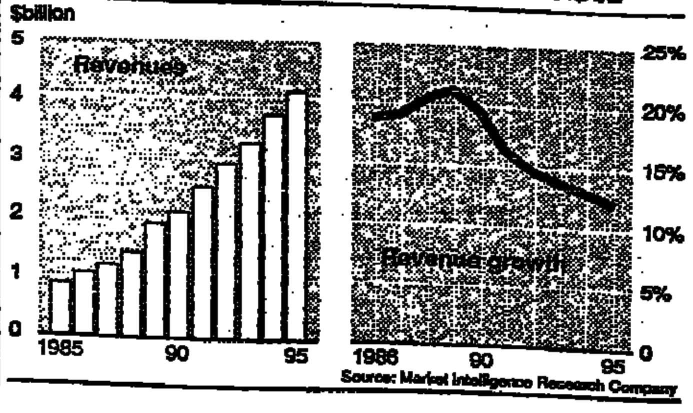
demanding more freedom for companies to set up international services. But despite these continuing rows, telecommunications trade now seems to be set on a steadily rising curve.

Indeed, one way of looking at the conflicts is that they are a demonstration of the growing strength of international trade. Companies are complaining because they are facing competition in what have been protected markets up to now; other businesses are exporting with a new-found vigour.

This point is made in a recent US Department of Commerce publication, NTIA Telecom 2000, which said: "Government under-estimated the velocity with which telecommunications trade deficits would mount. It did not take adequately into account the extent to which a strong dollar would affect US sales.

"At the same time, the Government over-estimated the ability of US-based firms (including AT&T) to compete – and the pace with which foreign barriers to US entry would be reversed."

World multiplexer market forecasts



Source: Market Intelligence Research Company

Adrian Morant on the importance of the satellite

Message from the sky

ANY REFERENCE to satellites brings television to mind. The promotional activities of the companies competing with each other, and terrestrial broadcasts, to bring TV into living rooms makes it easy to overlook the importance of satellites as a telecommunications medium.

Satellites in geostationary orbit have become a vital element in communications for the carriage of voice, data, video and TV traffic around the world.

Remaining "stationary" at an altitude of 22,000 miles they are ideal where long distances or inhospitable terrain must be crossed. Often they provide communications with places where it would be uneconomic (or even impossible) to use cables or other means of connection.

On "thin" routes such as in the many islands of Indonesia there is no real alternative. Satellite ground stations, even in remote areas, bring communications with the capital, with other communities and with the rest of the world.

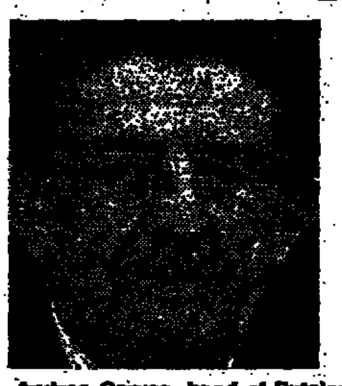
Perumtel, the country's ministry of telecommunications, is to use a communications network using low-cost, very-small-aperture-terminal (VSAT) technology provided by US company Scientific-Atlanta. It will use 300 terminals but the number may grow to about 1,500 or even more when the network is fully implemented.

It will provide interactive data, video and voice communications to many remote and mountainous communities that have previously had limited telecommunications. The VSAT network will operate over Indonesia's Palapa satellite. Because the satellite's "footprint" covers neighbouring nations, these countries may be interested in networking with Indonesia so as to provide regional communications.

The need for telecommunications cannot be too heavily stressed. Mr Richard Reynolds, managing director of GEC Plessey Telecommunications said at an international telecommunications conference in Singapore earlier this year that developing economies need advanced telecommunications if they are to attract the inward investment they require to grow.

This is because an international company, setting up in Nairobi or Shanghai, will want the same services that it has in Chicago, Birmingham or Frankfurt.

Furthermore "the availability of these services will also be needed on a national scale if the historic drift from rural areas to ever-increasing cities is to be avoided in those countries with large populations," he said.




Andrea Caruso, head of Eutelsat, operates communications satellites such as Eutelsat II (right)

In addition, satellite ground stations with small aperture (diameter) dishes installed on the office roof or in the car park are being used increasingly to provide a business with a direct high capacity communications link.

Frequently the required capacity on such a service can be assigned to meet requirements that can vary on a day-by-day basis. For example, a multi-national could book capacity so as to operate a videoconferencing link between sites on opposite sides of the globe.

Satellites provide the ideal means of making these links because often the entire path is not encompassed end-to-end by cables providing the required wide bandwidth. According to the European Commission, the medium has "a particularly promising future".

Mr Richard Couchman, general manager of GPT Video Systems, which claims to be the world's leading supplier of digital videoconferencing systems, said: "The benefits are indisputable. Travel can be dramatically reduced, not only saving the costs of the travel itself but cutting the amount of wasted time while executives are en route. Meetings can be arranged at short notice and people, not normally included in team discussions, can easily be called in to take part."

Although digital videoconferencing has been around since the early 1980s, technology has advanced dramatically allowing digital video information to be compressed into narrower and narrower bandwidths without loss of quality.

"The aim is to produce a low cost videoconferencing product for the desktop user," explained Mr Couchman. "One that will talk to anyone just about anywhere."

A new international standard for the codec (coder/decoder) necessary for this videoconferencing will pave the way for an international dial-up video network as flexible and viable as today's telephone system. But even when that arrives, and the traffic uses terrestrial cables, there will still be many uses for satellites.

A further satellite service is British Telecom's Skyphone. It will provide air travellers with the ability to make telephone calls from aircraft using the Inmarsat (International Maritime Satellite Organisation) system.

Satellites in geostationary orbit have become a vital element in communications

It has started trial services on a British Airways Boeing 747 flying between London and New York. Operation via BT's Skyphone earth station at Goonhilly Downs in Cornwall will allow coverage to include north and South atlantic, eastern North America, South America, Europe, Scandinavia, Africa and the Middle East. Following an agreement with the telecommunication operators in Norway and Singapore it is geographically possible for the service to provide worldwide access.

Until the operational difficulties associated with contacting an individual can be resolved satisfactorily, it will not be possible to offer a ground-to-air service. In the meantime, BTI is investigating the provision of a ground-to-air messaging service. This might take the form of telex and/or a type of radio paging. This latter could use small LCD displays in the aircraft cabin which could show a short message of the form "A N OTHER CALL 441 234 5678."

The message request would be telephoned to a UK operator in much the same way that a message is sent in the UK to a paging company for onward transmission to a message pager.

The Government has granted licences for specialised satellite services which will allow the transmission of information in the form of one-way data, voice and TV signals to any number of receiving stations within the UK via any suitable communications satellite.

This has opened the way for services tailored to meet specific business needs. Users will be able to take advantage of the high quality, reliability, ease of installation and low cost per mile of satellite communications.

For example, Direct Business Satellite Systems is an enterprise established to exploit these business opportunities.

Two substantial investors, Monotype and BSB are taking substantial minority stakes in the company, providing equity and loan capital as well as giving further support to establish the business as a going concern.

Its target segment is messages from any one sender to many recipients. Mr Adrian Norman, the company's managing director, pointed out that most business messages are now handled digitally somewhere on their route and could be delivered electronically if their recipients had a suitable receiver.

Personal computers or TV sets with the addition of a cheap adaptor or "set-top-box" will serve as receivers for the signals which will be sent, alongside the TV programmes, via the BSB direct broadcast satellite.

In practice, messages will be sent via the telephone network to the transmission computer centre (TCC) where all the messages are stored, encrypted and coded. The message traffic is then sent to the satellite ground station for beaming up to the satellite which will re-transmit the messages in unused time intervals of broadcasting so that they can be received on the ground.

It plans to launch three services. These will be analogous to the telegram, tele-facsimile and answer-phone and will use public-key encryption (see below) to ensure that the message is only available to the correct recipient.

The projected charges being such that DBSS's long-term goal is to compete with the mail. To use the service the sender pays the cost of the transmission but the recipient has to install the receiver. Where the same message is to be sent to a number of destinations, it will be encrypted once with a message key. Then the message key is sent to each recipient individually using public key cryptography.

In public key encryption two different keys are needed: one for encipherment and the other for decipherment. Even when one has the former, it is not possible to use it to decrypt a message.

To send an encrypted message, one looks up the addressee's key in a freely accessible directory, akin to a telephone directory, and uses it to generate the cyphertext. The user, being the only one with the correct key, will be the only one able to read that message.

Where the same message is to be sent to a number of destinations, it will be encrypted once with a message key. Then the message key is sent to each recipient individually using public key cryptography. This system could thus be an ideal way of sending the same information, such as stock market prices or even price list updates, to a number of users as DBSS's tariff will be especially advantageous for multiple destinations.

Hugo Dixon on the re-education of the telephone

Return of intelligence

WHEN telecommunications networks began in the last century, they were intelligent. At the heart of them sat human operators, whose job it was to help route calls from one destination to another.

If Mrs Jones wanted to speak to Dr Brown, but Dr Brown was not at his surgery, Miss Smith, the operator, would tell Mrs Jones what time to call back. Alternatively, she would route the call through to Dr Brown's home, telling Mrs Jones: "After 4 pm, Dr Brown is always at home," or something of a similar nature.

This sort of service is not available on today's phone networks. As the volume of phone traffic has expanded, it is no longer sensible to have human operators processing all except for a tiny percentage of calls. Even if it were possible to employ enough to cope with the volume, they would not be able to keep track of what everybody in the community was doing.

The trend has been to automate phone traffic. In the process networks have become dumb. Instead of connecting people who wish to speak to each other, they connect destinations. If the person is not there, that is just too bad.

More recently there has been a move to reintroduce intelligence into telecommunications networks by means of a new architecture for the systems and sophisticated software. The concept is called "intelligent networks."

Intelligent networks will provide a host of new features, when they are finally implemented – which will probably take at least a decade even in industrialised countries. The new features fall into four main categories.

First, alternative routing. Instead of routing a call to a fixed destination, intelligent networks (INs) will be able to change the destination according to the time of day, day of the week of whatever variable was desired.

Customers would be able to programme the network to route calls. This feature would, for example, allow Dr Brown to instruct the network to send calls to his surgery between 9 am and 4 pm and to his home at other times. If he was away on holiday for a few weeks, he could instruct the network to route calls to another doctor or the local hospital.

Second, alternative billing. Dumb networks charge the number which originates the calls. INs would allow people to make calls from one number and be charged on a different number. This already happens with freefone services, an embryonic IN service which charges the company receiving the call rather than the person making it. Fully developed IN services would allow people to charge their home numbers for personal calls made from the office and vice versa.

Third, call barring. At present, mechanisms for preventing people using the phone for calling certain destinations – for example, stopping young children spending thousands of pounds on chatlines – are rather crude. INs would allow the subscriber to specify which destinations could be called from his or her phone, and to vary these specifications from person to person.

Fourth, virtual private networks. At present, if a large corporation wants to link its offices with a special telecoms network, it has to lease lines from the public telecoms operator. It can then tailor the networks to its own needs. VPNs would offer all the services companies expect from private networks – such as short dialling and call diversions – but over the public networks.

The trend has been to automate and, in the process, networks became dumb

Users would have the impression that they were speaking to each other over the company's private networks. The advantage is that they would not have the hassle of having to maintain their own networks.

In theory, all these sophisticated features could be provided in a number of different ways. The IN concept, however, relates to a specific concept for providing them. The essential element is that the intelligence is located in centralised computerised data bases rather than residing on the telephone exchanges.

The reason for this is that it is then only necessary to produce one database for each service instead of writing new software for each exchange in the network. The latter approach is complex, expensive and time-consuming.

Two further characteristics help define INs. First, a fast high-capacity signalling system. This allows the exchanges to communicate effectively with the databases, where they are told how to route calls or charge for them. If the normal, slow signalling system was used, it would take so long for the message to get back from the databases that the person making the call would probably have hung up.

Second, open interfaces between the various elements of the system – especially between the telecoms exchanges and the databases. This is essential if products from different manufacturers are to work together properly. It is, however, one of the trickiest aspects of INs.

The advantages of INs to the consumer could be immense. Instead of having to make, in some cases, dozens of phone calls before being able to track somebody down, INs will mean there are more first-time successes. Businesses and professional companies which need to be in contact with their customers will not lose business by being out of touch.

PTOs will not only need to meet the threat of other PTOs, they will also need to compete against private operators, such as IBM and EDS, and stem the drift of large corporate traffic onto private networks. In doing this, INs give them an armoury of weapons, the most important of which are probably virtual private networks because these compete directly with the offerings of the private operators.

PTOs also expect to benefit from INs through getting access to better quality, cheaper equipment for their infrastructures.

As such, INs pose a threat to the established telecoms manufacturers. Most have little expertise in creating and managing large databases. Unless they can either grow this expertise internally or acquire it through mergers, they are in danger of losing an important slice of their market. By contrast, INs are the first real opportunity for computer companies such as IBM, Digital and Tandem to get into the heart of the networks.

Advances in mobile communications

New ways to keep in touch on the move

Researchers are already moving towards the long-term goal of a global mobile phone system, reports Adrian Morant

IN THE more developed markets, the penetration of mobile communications already represents about five per cent of the population and some PTTs (post and telecommunications authorities) are predicting that, in the near term, a significant percentage of their income could be derived from mobile operations.

The indications are that growth will continue and market projections are suggesting 15 to 20 per cent penetration within ten years. The result of this is that mobile system technology is faced with two major challenges: meeting the demand for current services; and the need to establish more effective and efficient systems to meet the demand for advanced services.

The UK is in the forefront of these developments. As well as being heavily involved in the next generation pan-European cellular and Telepoint, Lord Young announced plans last month for Personal Communications Networks (PCNs) which will provide innovative communications into the 1990s.

While there are many means of communications, it is cellular radio which has had the most profound effect on personal liberty. It brings with it a freedom to communicate and to remain in contact with others in a manner not previously possible.

In Scandinavia, then the UK, and now the rest of Europe, these benefits have been recognised. This is the reason for the rapid growth in the numbers of subscribers.

The cellular penetration in Norway last year was over 30 per 1,000 inhabitants, with the other Scandinavian countries all having over 15.5 per 1,000. The equivalent figure for the UK is 6.5 – and still growing – whereas in the US, after some five years of operation, the penetration is only about 7 subscribers per 1,000.

Today's success is also a source of problems as the capacity of existing systems will be saturated and quality of service will suffer – unfortunately, already a fact of life at the busy hour on some systems in high activity areas.

This success also ensures that there is the potential market for other innovative means of communication. Thoughts are already moving towards the long-term goal of a Global Mobile Phone (GMP). However, in view of the length of time that it takes to derive and refine the concept, as well as reach international agreement – and then bring a product to market – this is a very long-term project which will probably not come to fruition until the late 1990s.

In the longer term, GMP will probably be needed. Not only is there an increasing amount of international travel and, without GMP, some travellers would have to lease local equipment wherever he went.

Before then, the pan-European digital cellular radio system, agreed by the European telecommunications operators, will make it possible for a user to maintain contact wherever he is in Europe using just one cellphone.

This facility, also known as GSM (Groupe Speciale Mobile), from the committee set up to study the options and to arrive at a technical specification, will also enable European manufacturers to ob tain the economies of scale so necessary for low-cost manufacture when it is implemented in the 1990s.

Operators in 17 countries have signed an agreement to implement GSM in their countries.

When fully operational in the mid-1990s, it will be possible to use the same car telephone as one travels across the continent. The European operators have already published projected GSM investment figures which indicate that a total of Ecu 700m (around £500m) will be spent each year through the 1990s.

At the same time, the projected total European market for systems and terminals is estimated to exceed Ecu 20bn to 25bn over the 12 year period to 2000. This is an average of over Ecu2bn a year.

The economies of scale whereby the same equipment will be suitable for all markets across Europe will be of major benefit in the 1990s when, after all, the single European market will have come to fruition.

Picture by Tony Andrews

Lord Young (left) intends that all personal communications network in the UK should operate to a common standard. He is seen here with Sir Derek Alun-Jones, chairman of Ferranti, with the new Zonephone telepoint service in London.

According to a study carried out on behalf of PA Consulting Group for the European Community, there are about 32m mobile workers in Europe who may be regarded as the potential market for GSM.

The study forecast that by 1995 the current analogue cellular systems such as Cellnet and Vodafone will have been overtaken by GSM and that, by the turn of the century, it will occupy a very large proportion of the over 14m subscribers. The underlying trend will no doubt be right even if, in an age of fast-changing technology, the detail may be wrong.

While the majority of users will not need a cellular phone while traversing Europe, it will be of value to a proportion of the business community, as well as long-distance coach and lorry drivers and others who are frequently out of contact.

Furthermore, the pan-European digital cellular system will provide the continued capacity for growth. In addition it is an advanced digital system. Benefits that accrue from this include higher speech quality, more secure speech because the transmission will be encrypted, and faster call set-up times.

This latter facility will reduce the time taken between dialling a number and the telephone ringing. While this may seem to be a minor point at present, it is one that will assume greater significance in years to come. This is because, with the digitalisation of the public telephone network, users will come to accept fast call set-up.

However, until GSM arrives, cellular communications are somewhat fragmented as, with the exception of Scandinavia, the current analogue systems used in the various European countries are incompatible with one another.

Each European country will have its own time scale for the introduction of GSM. Some will also introduce competition. For example, in Germany the Bundespost will operate one network while the operator for the competitive private network has not been selected yet from the various bidders.

One of the consortia consists of car manufacturer, BMW; as well as Veba, the German industrial group with interests in power generation and petrochemicals; BellSouth, one of the regional telecommunications operating companies in the US; Racal Telecom; and Cofira, the operator of the only analogue cellular network in France. Racal is also a member of the Cofira consortium France.

In the UK, the existing cellular operators, Vodafone and Cellnet, will operate GSM. With a combined user base of around 600,000 together they now have the largest cellular subscriber base in Europe. They have overtaken the over half-million subscribers of the Nordic Mobile Telephone system (NMT) and are growing at a faster pace. Their vast amount of experience in developing, operating and marketing cellular systems will be a major asset internationally.

In addition to those operations above, Racal has also involved in cellular operations in both Malta and Greece while British Telecom, 60 per cent owner of Cellnet, has recently purchased some 20 per cent of the equity of McCaw Cellular Communications for $1.37bn.

The drive towards miniaturisation is accelerating

This is a long term investment, made because BT is anticipating the globalisation of telecommunications and also wishes to re-inforce development of those businesses that are independent of the regulated UK markets so as to help protect BT from any slow-down in the UK market.

At the same time as there is this massive growth in cellular systems, there are other technologies coming to fruition.

Four companies have been licensed to operate Telepoint services based on UK-developed second generation cordless telephone technology. This allows users to make outgoing calls when they are within about 200 metres of a public base station.

As users are unable to receive incoming calls it is considered by many to be the poor man's cellular. While there may be some truth in this, it really caters for those who just need to make calls rather more than receive them.

Furthermore, with the objective of not losing any of this impetus in mobile communications, the UK Government announced last month that a Mercury/Cable and Wireless consortium will receive a licence "subject to them putting forward acceptable proposals" to operate a Personal Communications Network (PCN) of the form mooted in the "Phones on the Move" discussion document on Personal Communications in the 1990s, which was published in January by the Department of Trade and Industry.

As Motorola took part in the Mercury/C&W submission and supported their proposal to Lord Young, there would not have been any shortage of specialist technical expertise.

Lord Young stated that he intended to identify one, or possibly two, other prospective licensees of PCNs by the end of the year.

He intends that all the PCNs should operate according to a common technical standard in order to ensure competition between the operators.

The underlying "micro-cellular" concept would employ radio base stations with small service areas – this would allow the use of very small and light pocket handsets, capable of long periods of operation without the need to recharge the batteries.

The number of cellular system subscribers in Britain could reach 1.2m by 1992

The indications are that these pocket radio-telephones will be the battleground for the public mobile radio telephone markets in the 1990s. The further implication being that the cellular radio operators will be shifting much of their focus away from car phones as such, towards pocket radio-telephones in order to sustain their growth through to the year 2000 and beyond.

This move towards true portability is already well under way with hand portable cellphones now on the market offering vastly improved performance, especially in terms of battery life, over previous products.

For example, Motorola's recently launched 9800X personal cellphone gives up to 75 minutes' continuous talk time or 20 hours' standby, and weighs less than 350gm. With the slim-line battery attached, instead of the standard one, the weight is only 305gm. This weight reduction, while achieved at the expense of operating time, results in a really "handy" product.

Key factors in this drive to miniaturisation are improvements in battery and semiconductor technologies. Philips Components of Eindhoven has announced a set of semiconductor chips cellular radios which reduces the number of components required, and so reduces size and weight, as well as claiming to have an appreciably reduced power consumption.

Targeted at the next generation of pocket-size, battery-powered cellular handsets, as well as traditional mobile applications, it is claimed to be the first chip set on the market geared to the specialised needs of cellular radiotransceivers.

Commenting on the products, on behalf of the Telecom Division of Philips Telecommunications and Data Systems, Mr Philip Titmarsh, national cellular sales manager, said that "this is the first high integration chip set for cellular phones. Its compact, power-saving design will not only enable manufacturers to introduce true, pocket-sized portables but will also stimulate the market for cellular phones, overall."

This statement is supported by the market researchers at Dataquest who estimate that UK cellular subscribers will increase from around 400,000 in 1988 to 1.2m in 1992.

Paging and private mobile radio systems

More opportunities for business

SINCE the most widely used means of business communications is the telephone, it is therefore the telephone that the majority of people would expect to use while on the move. This accounts for the popularity of cellular systems. However, paging and private mobile radio (PMR) provide alternative and complementary means of communications.

The rapid growth in cellular has increased awareness of the benefits of effective communications, with the result that it is becoming increasing recognised that, even though PMR and paging are both lower in cost, they are not necessarily inferior.

The former facility keeps staff on the move in two-way contact with the office, while the latter enables an "alert" – ranging from a simple bleep to a full alphanumeric message, to be sent to person on the move.

In 1986, there were around 428,000 PMR radios in use. However, partly due to lack of available radio spectrum, this figure had only grown by just 12,000 to around 440,000 by last year.

When the Band III spectrum, previously used for black and white 405-line TV, was released to mobile radio, the scene was set for a change. These extra channels, together with advanced trunking technology derived from cellular radio that ensure the efficient use of the channels, have resulted in a resurgence of interest and new opportunities for business. But, as national operator GEC National One points out:"It isn't to do with high technology – it's to do with low cost."

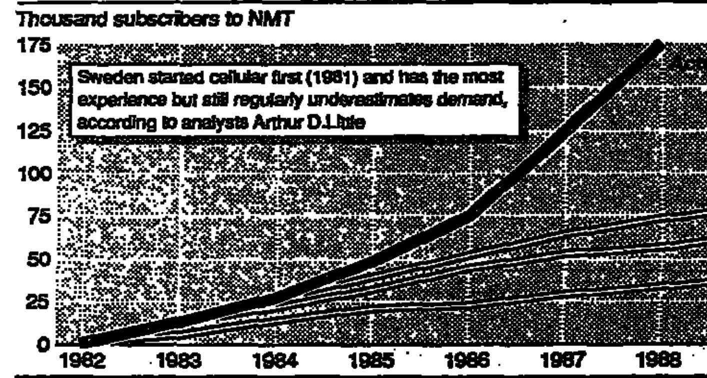
The European digital paging system will allow 'roaming' facilities across the service areas of 13 countries. The system is expected to be a world leader in its field

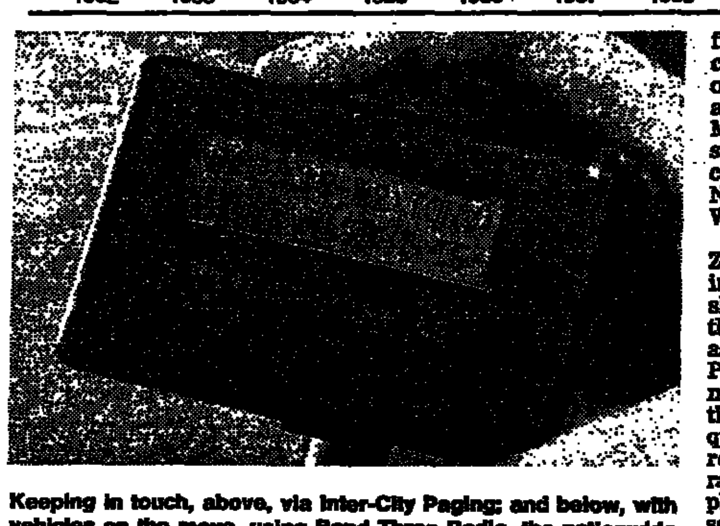
The two national operators are Band 3 Radio which consists of a consortium of Philips, Digital Mobile Communications, Racal and Securicor and GEC's National One. They are rolling out their networks to cover the country.

Under the terms of their licences, they are required to cover two-thirds of the country, geographically, by 1991 – an area encompassing at least 80 per cent of the population. However, the target of the latter is to achieve this coverage by the end of this year, while the former already covers 60 per cent of the population and has over 10,000 subscribers.

In addition, eleven regional licences have been awarded by the Government. Many service providers are regionally based (even for a national operator) and so provide users with the choice of dealing either with businesses local to their operations or with national communications specialists.

Cellular systems in Sweden





Keeping in touch, above, via Inter-City Paging; and below, with vehicles on the move, using Band Three Radio, the nationwide trunked mobile radio network.

Trunking makes more effective use of the available channels by grouping them together. Then, when a user wishes to make a call, he is allocated the next free channel.

As soon as the call ends, that channel is returned to the pool, ready for re-use. This avoids the congestion that occurs on some channels while others are idle, when channels are dedicated to specific users.

Overall, trunking allows agroup of channels to carry proportionately more traffic than the same number of channels used separately – the result being that channel availability is greatly improved.

The efficiency of such a system relies on sophisticated signalling protocols. In the UK, the overall operational standard, MPT 1327, is a collaborative effort between the Department of Trade and Industry, all the Band III network operators and the equipment manufacturers.

This has been drafted as a signalling standard, suitable for a wide variety of systems, and these specifications have been proved by the active operation of systems.

When the Band III services were introduced the operators were permitted to use equipment to an interim technical standard. This is now being phased out now that MPT 1343, the main functional specification, has been approved.

While the key patents are held jointly by Philips, GEC and Motorola, to encourage the adoption of the UK protocols as European standards, there are no patent restrictions on their used by other European manufacturers of trunked mobile radio systems.

This will benefit manufacturers in terms of economies of scale, while the user will gain from wider choices and price competition. The Department of Trade and Industry is actively promoting the use of MPT 1327 and interest is being shown by a number of other countries including France, the Netherlands, Denmark and West Germany.

In the case of the latter, ZVEI (the German electrical industry association) is translating the specification with the aim of eventual adoption as a national standard. While PMR provides two-way communications, the importance of the one-way radio pagers is frequently overlooked. Pagers are relatively low in cost and range in facilities from the simple "bleep" through to more sophisticated versions providing full alpha-numeric messages.

In the UK the various operators provide a range of service area coverages for a commensurate fee.

Mr Daniel Nabarro, chairman of Inter-City Paging is of the opinion that, despite the fact that the UK radio-paging is expected to grow by 25 per cent this year, there are very many people who fail to appreciate how paging could benefit them.

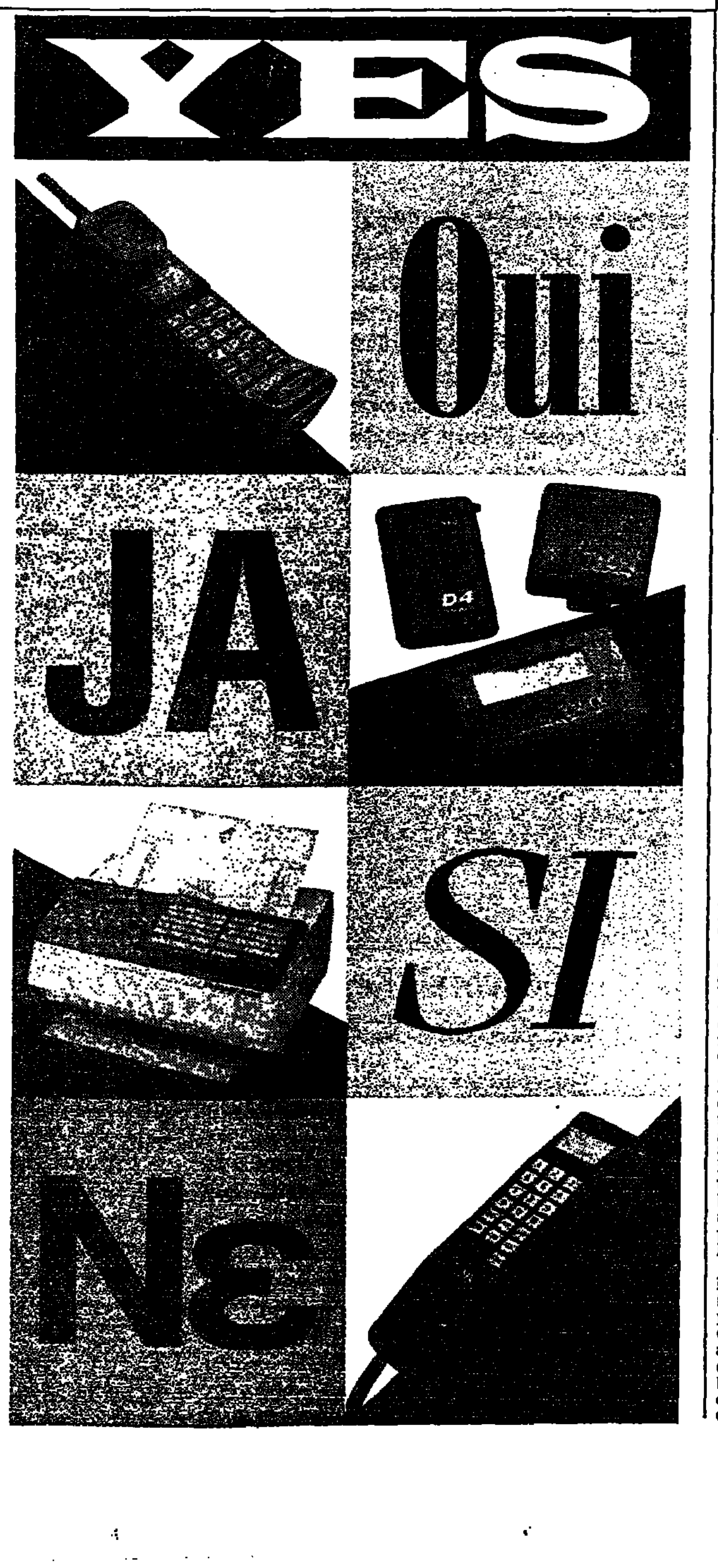
He points out that many possible users assume that a pager is only of value when the user is called several times a day. In fact, just one message a week – or even a month, if the message is critical – may more than justify its use.

There are even those, on-call for emergencies, who hope their pager will never bleep. Common goals are appearing with the UHF Europage paging initiative under way across Europe. Alphapage is being constructed in France and Cityrufin Germany. While only intended to cover major conurbations, they are both effectively national systems as they are under the umbrella of the national PTTs.

In addition, a similar system is under way in Italy and there is the possibility that Spain and Austria might follow suit and implement corresponding systems. A British consortium of all the major paging companies, with the exception of Mercury, will also construct a system operating on the same UHF frequency to cover London and the south-east.

Together, they will permit city-to-city roaming across the various countries. Called Europage, it is expected to be operational from the beginning of 1990. It is believed that Racal Telecom will be the prime contractor using transmitters supplied by Paging Systems, the sister company of Inter-City.

Continued on page 7



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Raymond Snoddy examines the cable business

Changing perceptions

IN THE early 1980s, Mr Kenneth Baker, the then Minister for Information Technology in Britain, would talk about cable television in grandiose terms and, in particular, its role in creating the wired city of the future.

New television channels, based firmly on entertainment, were seen as the engine that would drive forward and fund advanced telecommunications services.

In many ways, it was a futuristic fantasy that, until recently, seemed laughable as cable operators faced with a slow growth of the market concentrated on survival and installing basic cable equipment rather than worrying about high technology or wired cities.

Slowly, all that is beginning to change and cable operators are beginning to take telecommunications seriously again as an integral part of their business with the potential to create serious streams of revenue.

The change in perception of cable as a business, and telecommunications within it, despite all the publicity given to satellite television, can be summed up quite simply – the Americans are coming.

Immensely profitable US cable companies have identified the UK as a key overseas market. But among American cable operators, such as United Cable and Jones Intercable, there has been an entirely different class of investors – the US regional telephone companies, "the children of Ma Bell."

In the US, they are at present forbidden from running cable television companies in addition to their existing telephone businesses.

There is no such prohibition in the UK. The enormous US telephone companies are coming to Britain primarily to use cable to offer an alternative local telephone service to British Telecom, but also to gain experience of cable television in case of further deregulation in the US that would allow them to become cable operators there too.

Pacific Telesis (Pactel) is involved in a joint venture with Jones to run East London Telecommunications, the Docklands cable franchise which has now installed its first 40 business telephone lines and which plans to operate its first 100 domestic telephone lines in the autumn.

The joint venture partners have also been awarded a franchise covering the London boroughs of Redbridge, Barking, Dagenham and Bexley and has also applied for the Waltham Forest franchise. Although the US owners are moving cautiously it is the eventual aim to bri ng cable telephony to those areas.

US West, another part of the former Bell empire ,is even more active in the UK.

The company is a shareholder in Windsor Television one of the original 11 cable franchises awarded in 1983 and which is demonstrating that telecommunications has the potential to become a serious business for cable operators.

So far, more than 500 business lines have been installed in the Windsor franchise area.

US West is, however, the majority shareholder in the

UK cable operators are beginning to take telecommunications seriously

Cable Corporation, holders of the Birmingham franchise, one of the largest cable franchises in Europe with 460,000 homes.

From September, the company will be installing cable in Birmingham and at the same time installing telecommunications capacity.

US West in also involved with United Cable to provide telecommunications services in its south London franchises covering Croydon, and the boroughs of Sutton, Kingston, Merton and Richmond.

Mr Jim Dovey, chief executive of United Cable Television Internat ional, sees the business area of Croydon as an attractive opportunity. In addition, three other US telephone companies Bell South, South West Bell and Nynex, the New York phone company, are all believed to be exploring cable and related telecommunications opportunities in the UK.

Partly stimulated by the US investment interest, there has been a remarkable burst of activity from the Cable Authority, the industry regulatory body.

Although there are only 10 modern cable franchises in operation and a a modest number of cable subscribers – 284,000 on both old and new systems – no less than 41 franchises have now been awarded covering a total of 4.8m homes.

A further 31 franchises have also been advertised given a grand total of 9.2m homes that could be in theory be cabled, for both television and telecommunica tions, if all the systems are built.

Mr Roger Marshall, a director of East London Telecommunications,believes that cable could create viable local telephone companies particularly if the industry is given the right to operate its own switching between franchises following the 1990 review of the BT/Mercury duopoly.

At the moment, companies such as Windsor and ELT connect to the national system through Mercury Communications

Already, the Department of Trade and Industry is suggesting it will allow connections between adjacent franchises of up to 500,000 homes for the exchange of pictures and for telecomms as long as they are in the same dialling area.

By the late 1990s, Mr Marshall believes cable will have emerged as a significant third force to BT and Mercury in the provision of local telecommunication services.

Mr Jon Davey says:"I think the perception of cable and telecomms has changed particularly because of Windsor and ELT. People are now realising that this is not just something imaginary."

The strongest evidence so far comes fron Windsor Television which includes the enormous Slough Trading estate within its franchise area.

"We have beaten the path for everyone else,"says Mr Tim Halfhead, managing director of Windsor.

Apart from the 500 business lines, the company has a small number of residential lines and plans a more substantial residential trial. It is the use of the business lines, interconnected by Mercury, that has caused the most surprise.

Windsor estimated £50 gross revenue for each line a month. Instead, the figure has turned out at £135 a month, although margins could be improved.

By the end of next year turnover from telecommunications could be higher than that from television.

"We see it as being very big business," Mr Halfhead said.

Optical fibre cable being laid in the Lake District in Cumbria.

Telepoint technology: a new concept in cordless telephones, allowing users in Britain to make calls within 100 metres of public base stations.

Mobile systems

Continued from page 6

The memorandum of understanding having been signed between Europage (Air Call, British Telecom, Digital Mobile Communications, Inter-City, Millicom and Racal) and operators in France Germany and Italy, it is now expected that the commercial agreement will be signed by all the parties. There is already substantial pent-up demand for this system which is essentially an interim system and is expected to be loaded with subscribers within about five years.

It is a "follow-me" system so that callers would still telephone the normal number to initiate the sending of a message, irrespective of where the user is currently located.

Further down stream will be Ermes, the European digital paging system. Thirteen member-countries of CEPT, the organisation of the European telecom authorities, will define and then construct a paging network operating at VHF – the intention being to allow roaming across the service-areas in all these countries, once the specifications have been agreed (by 1990) and construction, co-incidentally with the single European market, in 1992.

Issues that need to be resolved include inter-country billing and roaming; and, as the Ermes system is expected to lead the world, it is likely that the US and others will follow.

Here it is worth noting that, as Mr Godfrey Wilson, managing director of Digital Mobile Communications delights to point out, that the total population of the European CEPT countries will be around 430m in 1990 – an appreciably larger potential marketplace than even the US.

It is estimated that only about 5 per cent of the user-population will take advantage of the international roaming facility, nevertheless, they will find it of inestimable value. This is because it is difficult to set up a detailed programme in advance for an overseas business trip – and virtually impossible to keep to it.

Today, the British market is the most advanced in Europe. In addition, UK companies have already contributed to paging developments in other countries. For example, Air Call (recently taken over by US telecoms giant, BellSouth) has set up complete turnkey systems in Ireland, Spain, the UK and Switzerland.

Another company with experience across Europe is Paging Systems, whose mission is to develop leading-edge technology especially in radiopaging with emphasis on fully-automated paging networks and associated management software.

Its systems were initially developed for its sister national radiopaging company, Inter-City Paging, but have achieved major sales overseas – especially Spain and Switzerland.

Mr Nabarro, who heads up both companies, is expecting entrepreneurs to emerge in the wake of the liberalisation of European telecommunications. No doubt, he will be aiming to apply his expertise in a mutually beneficial manner as the business community in many other countries increasingly looks to paging as a means of keeping in touch.

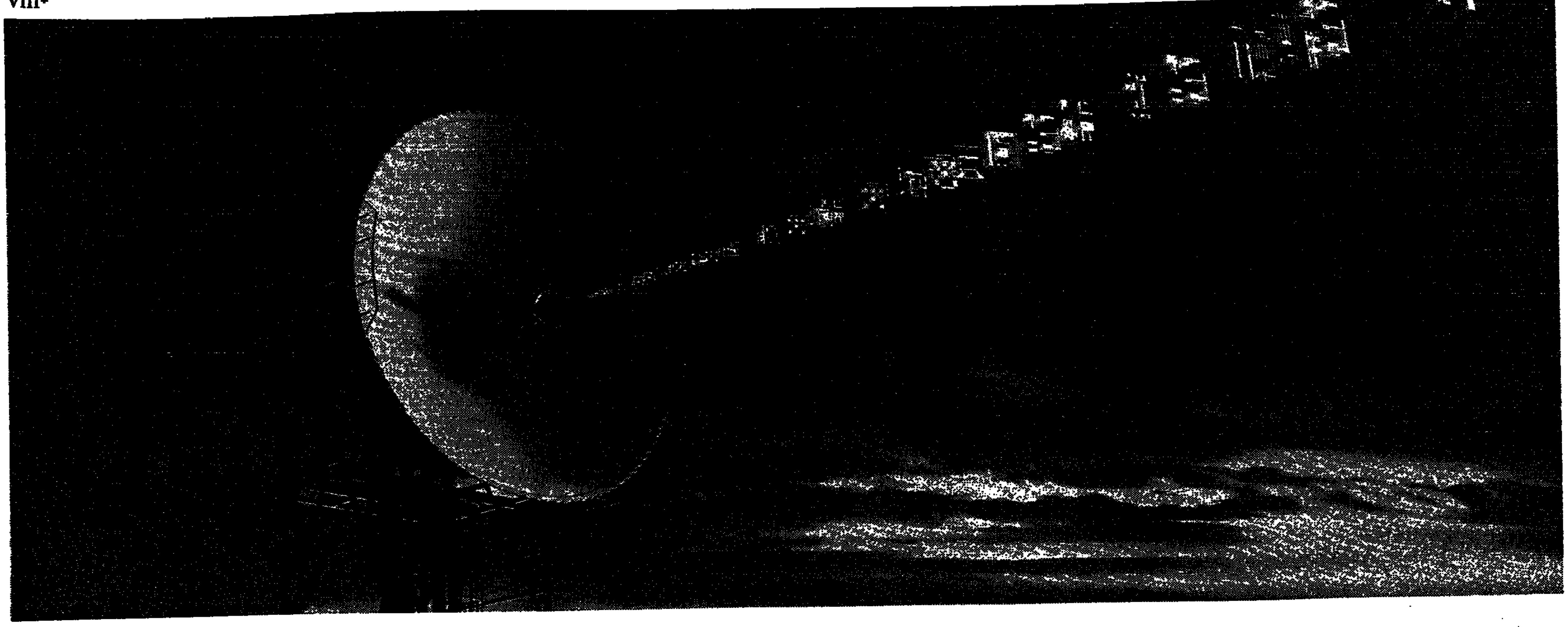
Adrian Morant

Costly calls

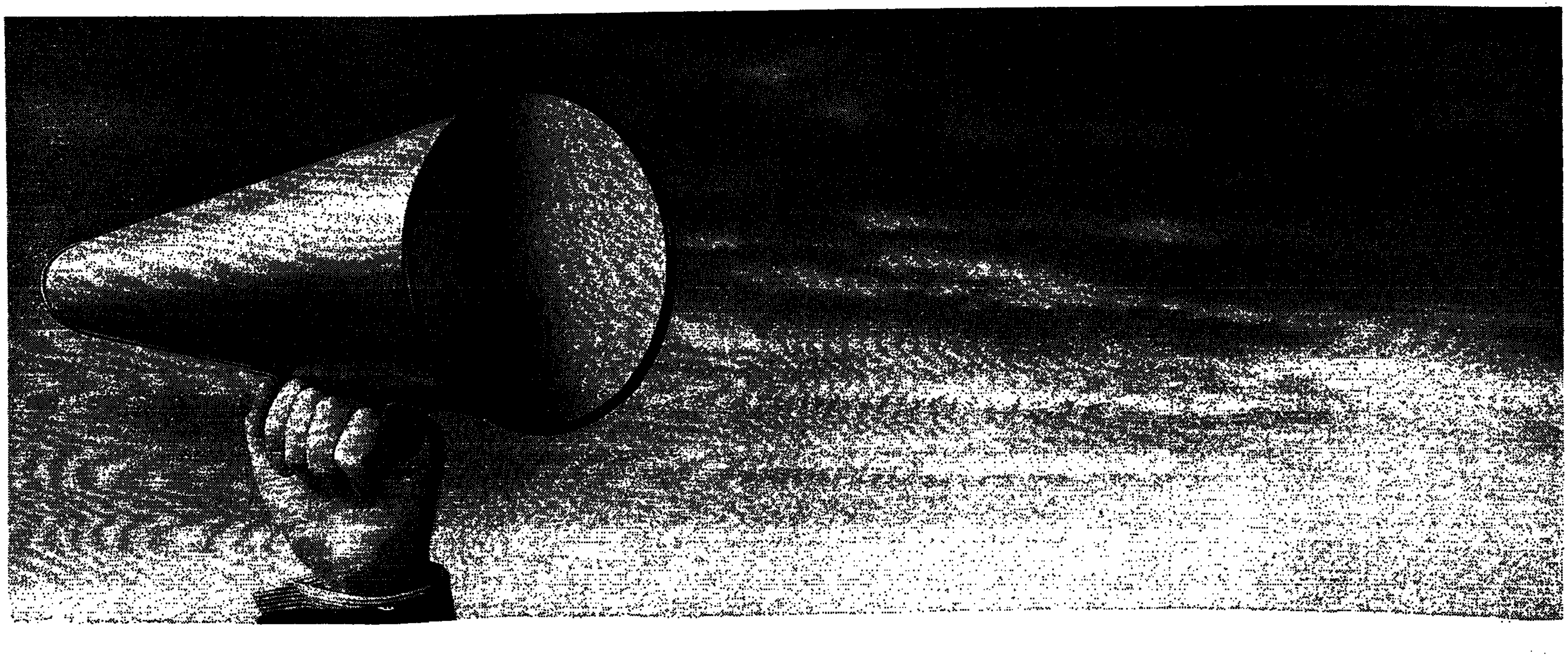
CELLULAR telephone users in the UK often have to contend with costly call charges and fees, plus "severe congestion in built-up areas, interference and disconnections," claims a new report.

While telephone prices have plummetted, with buyers being offered in excess of 50 per cent off the recommended retail price on many models, the costs of running a cellular phone, as opposed to buying one, have spiralled, says the report in *What to Buy for Business*.

"The cost of making cellular phone calls has always been high – 33p a minute at peak time – but many dealers are now trying to take up some of the strain of operating in such a competitive marketplace by jacking-up call charges and the the network connection and subscription fees," comments Julian Lloyd, the magazine' editor.



Without the language of business, how do you expect to be heard?



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In the bustling hurly-burly of business, how can you attract attention? More noise perhaps? Then again, there's always someone who shouts louder.

The truth is, it's not just what you say that's important. But how you say it. For this reason, British Telecom offers a rather special language.

A language that transforms speech, text or pictures into a stream of digital pulses. So you can transmit and receive information with the speed and clarity of thought itself. Used in everyday business, this language will give that vital competitive edge to any company. However small.

Our 0800 service, for instance, gives potential customers a considerable incentive to call you up. And we can provide a 24 hour telemarketing team to receive such calls on your behalf.

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Why not find out more about the language of business? For your action pack containing our catalogue and Business programmes, contact us on the number below. Achieving success in a crowded and noisy market place can be extremely tough.

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Money is the main catalyst for change, says Julie Harnett

Era of private integrated networks

LOWER OPERATIONAL costs, better security of information, more reliable, faster communications links and tighter management control, are reasons put forward for installing private communications networks.

There is no doubt that the 1990s will be the age of integrated networks that support not only voice, data and graphics communications but fax, video-conferencing, electronic messaging and mail, voice messaging and voice mail as well as paging, security systems and so on.

Taking the two main methods of communications, there is expected to be substantial market growth over the next few years. According to market researchers Dataquest, for example, the European telecommunications industry was worth $67.4m in 1987 but will be worth $105.5bn by 1992. The European data-communications market, worth $2.5bn in 1987 will be worth $5.2bn by 1992.

A number of initiatives are under way to provide advanced telecommunications on an international basis that will add momentum to the industry as it moves towards the end of the 1990s.

One such programme, RACE (Research in Advanced Communications in Europe) aims to build a new European telecommunications infrastructure with the objective of bringing every type of communications medium, including home banking and interactive distance learning to the masses by 1995.

The biggest direction the market has taken is from analogue to digital circuits, as can be gauged by figures supplied by Dataquest showing that the number of KiloStream circuits in use is expected to grow from 75,000 this year to 250,000 in 1993 while MegaStream will grow from 10,000 this year to 60,000 in 1993. The UK dominates the private multiplexer (MUX) and X.25 market in Europe with over 40% share.

According to Mr Mark Davies, business manager of Digital Network Systems at CASE: "In the last 12 months we have witnessed a definite shift in two directions. One is a migration from analogue to digital circuits, the other is the parallel move towards putting data as well as voice on the network.

"The philosophy now tends to be that the private network is cost-justified on voice with the added benefit of getting a free data network."

Mr Davies says that a growing number of organisations are throwing away tie-lines connecting PABXs on different sites — and putting in a MegaStream circuit.

"You only need between eight and 14 analogue tie-lines to justify doing that. Of course, with MegaStream, you are getting 30 channels, so you have all that extra capacity for additional voice and data traffic and perhaps facsimile or even videoconferencing and CCTV and other security systems.

"If you're already using KilOstream for data traffic, then it makes even more sense in terms of cost to install a MegaStream to cope with the increased traffic."

There is no getting away from the fact that private networks are costly, and multiplexers can cost anything from £20,000 to £60,000.

A MegaStream circuit costs about 20 times more than an analogue circuit and a MegaStream about 4 times more than KiloStream, but then you get between 30 and 200 times the capacity and once in place your transmission costs are nil.

As well as circuit costs, users also have to add into the cost/benefit equation other costs such as administration, network management, establishment of international links and gateways, interfaces to the PABX and connection to the public network where required and so on.

The catalyst of change in every case is money, says Mr Davies — "that is, direct cost and transmission cost-savings that can be made by putting everything on to one circuit that goes through one multiplexer. What is more, there are indirect costs savings. For example, you have a single point of management, fewer suppliers and maintenance companies to deal with and a lot less wiring running round the building."

There is increased competition in the marketplace. Last December, IBM and Siemens signed a telecommunications agreement which established Rolm as a joint-owned marketing and services company with

"A common view is that a private network is cost-justified on 'voice,' with the added benefit of a free data network."

the purpose of offering communications products for private networks. The activities will cover digital PABX switches, advanced telephones, voice messaging and related products used to carry voice and data in and between office buildings.

In May this year, Ericsson Business Communications announced that it was moving into the area of corporate integrated voice and data networks. Gandalf Digital Communications has recently announced a number of private network developments and enhancements as has Chernikeeff Telecommunications.

Liberalisation of the communications network is also bringing competition from a number of other areas, as Mr Davies explains: "At the moment, the only network services on a national basis is through BT, Mercury and Kingston (Hull), but there is an interesting move at local level with cable television companies starting to offer access to Mercury.

"Obviously Mercury is in a better position in this respect than BT because its fibre optic national network is already 100% digital. However, unlike BT, they cannot provide connections to houses and offices, whereas the cable companies can but don't have the network."

A joint initiative seems to be an ideal solution, and there would certainly appear to be a large enterprise opportunity in the provision of TV/video/fax/electronic mail links between closed user groups to provide live broadcast/message services to support communications in-house and between remote branches as well as with suppliers, customers, shareholders, financial institutions and so on.

There are a number of network service providers such as Istel, EDS and Hoskyns, but until now, they have not be able to offer simple connections. They had to add value, for example, by managing the network on behalf of the user or by running an electronic mail service.

That all changed last month with an announcement by the Secretary of State for Trade and Industry, and welcomed by Sir Bryan Carlsberg, head of Oftel, that a new class of private branch systems licence is to be issued that would allow a simple resale of circuits leased from a PTO (primarily BT and Mercury).

However, Mr Davies believes it will be some time before organisations are ready to sell extra bandwidth: "They are still too concerned with building networks to meet demands of their own end users. It will be some time before they will be in a commercial resell position."

Nevertheless, he says that a number of large companies that have been planning and implementing digital backbone networks that will support corporate communications networks over the past 18 months have had potential resale of spare capacity very much in mind — "not many companies have been taken by surprise by the announcement."

Mr Ray Northcott, director of networking practice at consultants Butler Cox, feels that before an organisation can sell spare capacity, it has to have a commercial attitude towards its own internal telecommunications service; but, sad to say, "there are not many companies that have got that."

He says that there are too many technologists saying that what they need is a relational database or that they need an OSI data communications network. What they should be saying is that they need faster links to their customers and better services to meet end user needs. The telecommunications manager should be a broker of services, not an operator of networks.

"If you are running an internal network that needs to be upgraded in order to meet user demands, how do you justify the investment? You justify it, at boardroom level, by the rate of return. It is a commercial objective; there is no escaping it. There are some people who will say it is necessary, it's infrastructure; it's overhead. Just baloney. It is a business driven decision that has to represent value for money.

"If I were a production director who believed that I could operate more efficiently through communications or network services, then I should be able to compare the value for money I would get from internal services with those I could get externally.

"The man who pays the piper should be able to call the tune. With ISDN on the horizon and the improvement in public network services such as X.25, and with companies like Istel, Hoskyns, Racal and IBM getting better and better at managing private networks on behalf of people, then the more apparent will become the need to treat a network as a business."

Mr Northcott says that those involved in developing private communications networks should be more involved with the people.

"End-users will not be very impressed if you say you have a brilliant network if it is not organised and implemented in such a way that it helps them to do their job better. This is such a crucial area that more and more organisations are appointing service managers who work with the network specialists and applications development and systems people to deliver a system that meets end user requirements."

A valid question might be; is the cost of installing relatively expensive private integrated voice/data networks justifiable in any case when ISDN (the much vaunted public Integrated Services Digital Network) is supposedly just around the corner?

ISDN, it is said, will be able to compete with private circuits in terms of transmission speeds and reliability as well as integration of voice, data, graphics, fax and videoconferencing using one terminal and one subscriber number.

It depends on the amount of communications traffic involved and the difference in direct, transmission and operational costs between putting in a private network using proprietary protocols and signalling systems and the benefits you get from the new integrated public service that conforms to CCITT standards.

However, in the view of many consultants, including Mr Northcott, ISDN will not have an impact on private networks before he retires — "that makes it 2005 at the very earliest — I believe Singapore is the first place where it has actually happened."

Mr Davies of CASE is a little more optimistic, although he admits there has been little uptake of IDA (Integrated Digital Access). "That's because it is still limited geographically. However, I think the pressure from Europe will make BT get its act together. France has a fairly respectable ISDN service; West Germany is offering it, too. But BT's implementation dates have slipped by two years and that has encouraged more corporations to build their own private ISDNs, which is what a digital backbone network with MegaStream is, essentially."

Delays reduced

A PRIVATE communications network, installed in less than three weeks, is helping to cut delays for British holidaymakers. The system, pictured left, links air-traffic flow-control centres in London, Madrid, Paris, Frankfurt and Rome. Supervisors at each centre can now contact each other, either individually or in conference, at the touch of a button, to discuss overall traffic management. The network, from British Telecom International, is centred on the Civil Aviation Authority's private exchange system at West Drayton.

Will there be a role for ISDN in the business community with many corporations making or planning huge investments in private communications networks.

Mr Davies believes that most organisations will go for a hybrid, mix and match approach. "It is a fallacy that KiloStream and MegaStream type circuits will disappear; leased lines will still be available, except that the connections will run across the ISDN. Organisations will still have their digital backbone networks and, where they cannot justify a dedicated 64K link, then they will be able to use an ISDN connection.

The main point, however, is what ever solution is chosen, the corporate network will be under the control of the communications manager who will be able to make proper selection decisions based on cost and potential cost-savings".

Nevertheless, even with the installation of private integrated networks gathering momentum, there is still a "very cautious approach to complete integration," says Mr Northcott.

"It is rolling forward at the transmission level, using MegaStream services with multiplexers to handle voice and data with equal facility. But when it comes to total integration the question is who wants to be first; and the answer is nobody, unless there is a competitive advantage and you have very user-friendly interfaces."

In Mr Northcott's view, integrated networks will not take off as cellular radio did. "That was a solution to a ready-made problem. That is not the case with integrated networks. What we are looking at with private networks is perhaps a refinement, a more elegant way of doing what people have already been doing."

"Even when you talk about integration over ISDN you have got to think about user-friendly interfaces. If I have a 2B plus D (two 64K circuits and a 16K signalling channel) to my desk, if it is difficult to access the facilities I will not use it."

It may well be that DPNSS (digital, private network signalling systems) will replace many of the analogue circuits in private use during the 1990s. It is a standard, developed by a group of UK PABX suppliers, led by BT, to overcome the lack of internationally defined standards for ISDN-type services in corporate networks and allows PABX manufacturers to offer varying levels of supplementary services such as fast call set-up, call back, diversion and transfer over the

"Despite the momentum for change, there is still a very cautious approach to complete integration"

private network.

On July 7 this year, GPT and Philips Business Systems announced that functional tests of such services carried out at the GPT laboratories in Nottingham on the ISDX and Sopho-S products had proved successful. The companies expect that DPNSS will become the de facto interworking standard for private telephone networks internationally and in the UK.

Mr Mike Hart of Philips says: "With the backing of two of Europe's leading PABX suppliers, market forces will establish it as the users standard."

Whichever route the corporation takes, someone has to be able to make a value judgement about networks that matches business objectives with end user requirements. However, there is a dearth of executives in telecommunications and datacommunications who have the necessary skills and decision making powers to be able to do that.

In terms of network design and facilities management there is no shortage of specialist companies who have expertise in both voice and data networks including Timeplex, Infotron, General Datacomm, Motorola Codex, BT and Mercury. But the wise purchaser must ensure that the design and implementation authority has adequate support staff and systems components readily available should problems arise. This was one of the reasons why Thames Water and Lloyds, for example, asked UK-based Case to design, build and manage their private communications networks.

For option feasibility studies and selecting an appropriate systems supplier, another option is to seek the help of independent specialist consultancies who can advise but will not actually try and sell you a system.

Shell UK, for example, asked Commslogic to investigate computer integrated speech systems that are likely to become available over the next 18 months. Shell wanted to know the benefits that they would bring to the organisation not only in terms of meeting business needs and objectives but also with a view to enhancing Shell's competitive edge. ICI, Cornhill Insurance and Commercial Union have carried out similar exercises.

Another option if you are new to networks is to attend a seminar such as Intersite Networks to be held at the London Press Centre on November 7 and 8 (tel: 01-242 4141).

It is organised by the Telephone Users' Association. Mr Robin Verney, presenter of the seminar and telecommunications consultant, will cover areas such as network planning, configuration, design, implementation, support and management as well as the regulatory issues and supplier selection.

Around the clock with voice processing

Key to new services

THE TELEPHONE is an exceedingly powerful interactive tool, available 24-hours a day for the benefit of both businessmen and private individuals, yet the 20m telephones in the UK are under-utilised.

Telephones are the key to a wide range of services, collectively known as voice processing (VP). It is a little understood area where telecommunications and computer technology combine to enable the telephone to be much more than just a phone. Voice processing includes audiotext, telemarketing, voice messaging and transaction processing.

These systems are based on sophisticated computer voice processing technology, and the user only needs a push-button tone telephone or, where voice recognition input modules are employed, talk directly to the system.

The rate of growth of VP has been projected within the EC to equal 0.7 per cent of gross national product by the year 2000. US revenues are expected to reach $2.44bn by 1993 with the equivalent figure for the UK premium rate services (PRS) being £260m.

The fastest growing area of voice processing in Britain is Audiotext — this is one area where the UK is actually ahead of the US.

The range of dial-in services available on PRS for pre-recorded information include financial, health, jobs, travel, sports commentaries (delivered live or as recorded summaries) and interactive services such as help-lines and games.

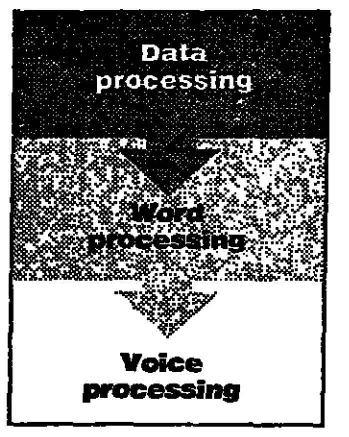
Another area is telemarketing where last year $49bn was spent by US business. In the UK, between 1986 and 1988, the proportion of British companies using telemarketing jumped from 26 to 51 per cent. Together these provide the facility for promotions and competitions, with opportunities for market sampling, opinion polls and list-building.

Other sectors are voice messaging and transaction processing. The former is the telephone answering service of the 1990s while the latter provides a vehicle for 24-hour shopping and credit card buying with instant access from home, office or hotel room.

Credit card buying in response to high volume national advertising or direct mailed catalogues, for example, can be handled by voice processing systems which direct the caller, in response to carefully worded instructions or questions.

Thus, the caller is able to place an order at any hour of the day or night. Equally well, the vendor is able to qualify leads and is thus able to improve the cost-effectiveness of its overall selling operation.

Voice messaging, which lets users send, receive and re-direct messages when and where convenient, improves business efficiency by eliminating "telephone tag" and greatly reduces communications errors and long-distance telephone charges.



Earlier this year, British Telecom Mobile Communications and VoiceCom Systems Inc, a voice messaging group in the US, joined forces to introduce an international messaging service in the UK and Europe. This will obviate that limited "time window" that is such a barrier to international communications.

Telecommunications and computer technologies converge in voice processing

Information services are not new — we have been able to dial TIM, the speaking clock for many years. But that was only one number offering one specific service.

The scope now is enormous and arguably limited more by the imagination than the technology. As Mr Jeff Wilson, managing director of Telsis, which claims to have a 30 per cent share of the UK audiotext market, points out: "In western Europe and throughout the English-speaking world, at least, people are richer and busier than they have ever been; and they all want to make the best use of time so that they can achieve more and enjoy more.

"What's happening now in voice processing will take them into a 24-hour world, with information and services on tap, round-the-clock shopping and customer care, effective communication by telephone across personal and geographical time zones."

The use of PRS has grown rapidly. About 39m calls were made to the services in 1986/87, 107m in 1987/88 and some 43m in the first quarter of 1988/89. BT is projecting that PRS revenue will be some £130m this year and will double within the next five years.

Depending on the purpose of the information, and who stands to gain, the costs may be borne by either the user or the information provider. Where the user benefits he is charged the premium rate for the service with the revenue being divided between BT and the service provider.

On the other hand, a tour operator, say, would be most willing to pay for the service as part of his marketing budget.

Telsis supplied a large Hi-Call system for the Cricketcall Service, which provides simultaneous commentary of all big county cricket games. This is, of course, a premium rate service.

Mr Wilson stresses: "Every new technology — especially a highly specialised sophisticated technology like voice processing — needs money. The enterprise of premium rate service providers is bringing that money into the industry and helping to finance technical solutions in all of the main areas of activity."

He envisages the introduction of flexible charging, so that people with special interests can pay an appropriate rate for dial-in services dealing with their own area of interest. This will lead towards narrow-casting (as opposed to broadcasting) to cater for special interest groups.

Companies will apply their ingenuity towards the adoption of voice processing because it will provide improved service while reducing costs. Users will embrace it because the difficulty of obtaining service or virtually any form of individual attention is the single universal problem that is the bane of both business and private life.

This is exacerbated by the trend towards shorter working hours, and longer leisure hours, which result in a shorter time window during which it is possible to make business contact.

Furthermore, during this smaller time window there are even more people trying to get through. With 24-hour service operations, the window becomes an irrelevance and call traffic can be much more evenly distributed.

The enabling technology is voice recognition. It provides true universal access because, as yet, the push-button tone dialling telephones which would be otherwise needed to make best advantage of the systems are not widely available in this country.

The low-cost tonepads which are placed over the mouthpiece of an ordinary pulse telephone to convert it to a tonephone do provide a solution but are obviously not the most convenient solution.

The leading UK exponents of voice recognition are Marconi, initially aiming at military applications, and Telsis. Mr Wilson led Marconi's efforts in this field before leaving to set up Telsis so as to apply the technology to a broader range of commercial activities.

The simplest systems employ voice operated switching, otherwise known as "grunt detection." Here the system asks the caller to say "yes" or "no" at the appropriate time. It does not understand a word but just detects the presence of a sound at the appropriate time. This technique, which is not true speech recognition, lends itself to simple applications, such as voting, where there are only two or three choices.

Speaker independent systems have also been developed. They have limited vocabularies such as "yes" and "no" as well as the numbers zero to nine.

A simple example of the difficulties encountered in real systems is that the system must respond correctly to both "zero" and "oh." Of vital importance with any system is that it must not falsely recognise words which are badly

Voice processing involves audiotext, voice messaging and transaction processing

pronounced or out of its vocabulary.

Speaker dependent speech recognition is another important technique. At the beginning of a call the system is trained to recognise the caller's voice. This is often used for leisure services but can be expected to be more widely used as technology advances.

In an example of "putting one's money where one's mouth is," Telsis has started to use its own voice processing systems to provide 24-hour service cover for its customers.

In the event of a problem, the user of any Telsis system rings into Telsis's own Multi-Call system and gives his identification. This initiates a radio paging alert to the appropriate on-call person in the service department. Should he not respond within one hour, one of the directors of Telsis is paged. The advantages of this are two-fold: the customer is assured of good service and, equally important, the directors of Telsis are certain that customers will receive this service.

This is an illustration of providing the support that is needed by the customer. With quality of service becoming an increasingly more vital factor in winning, and keeping, business, voice processing will be seen increasingly in the front line.

Telsis develops and manufactures the systems that it supplies as well as providing full customer support. Some of its customers operate bureau services to absorb their own spare capacity (in much the same way that computer users in the 1960s offered their spare capacity).

This will no doubt be a way for companies to obtain voice processing facilities for a specific task or to "dip their toes in the water" before investing in their own equipment.

There is a pervading sense of deja vu — and voice processing bureaux may emerge in the 1990s since every growing market will attract a variety of new players. In fact, it already has. Tardis Direct is already a voice processing service provider to industry.

Adrian Morant

هكذا من الأصل

هكذا من الاصل

The World is getting smaller

(Take our digitally-encoded word for it)

KDD, Japan's premier international communications carrier, has a message for you.

After more than a decade of research and development, high speed communication in any medium is now possible on a global scale.

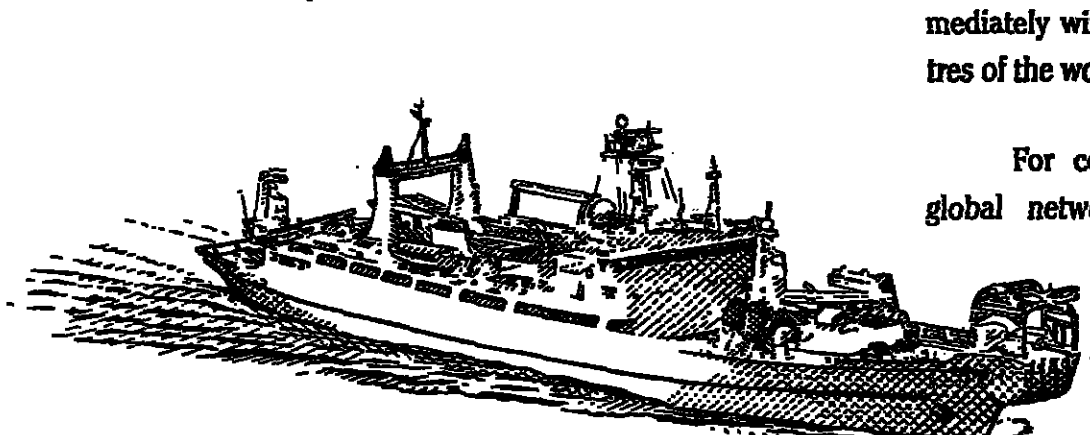
The recent inauguration of TPC-3/HAW-4, a trans-Pacific cable that's the result of a joint project between 30 corporations headed up by KDD and AT&T, means that the three major economic centres – the UK, USA and Japan – are now linked by optical-fibre cable, the fastest means of communication yet developed.

Technology in depth

Laid by KDD's own ship, the "KDD Maru", the cable is in itself a major feat of engineering, reaching a depth of over 8,000 metres – a fact that warrants an entry in the Guinness Book of Records.

Its completion is particularly good news for international businesses – especially for businesses whose very existence depends on reliable, efficient communications with the rest of the world.

Like yours, perhaps.

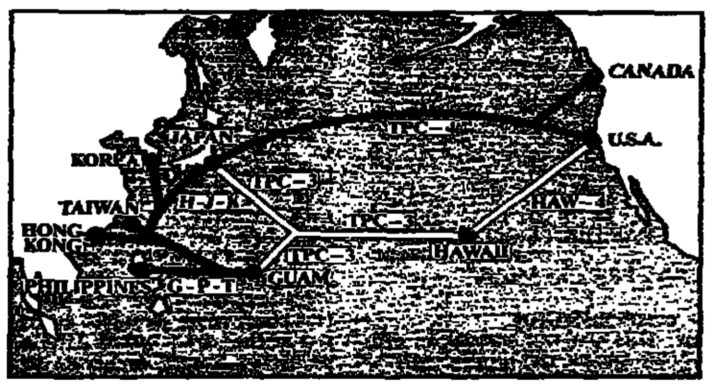


Choosing KDD means choosing reliability, because in addition to optical-fibre cable we can also provide state-of-the-art satellite communications. The result is an infrastructure that offers unique diversity and reliability, and ensures that all your global communications requirements are met.

Not-so-far East

"The Tokyo Connection", a joint project with British Telecom, offers a high-speed digital leased circuit for London businesses, enabling them to communicate with Tokyo via optical-fibre cable.

The advantages – universally high transmission quality, negligible time lag and enhanced capacity – make communicating with Tokyo as easy as an inter-departmental conversation.



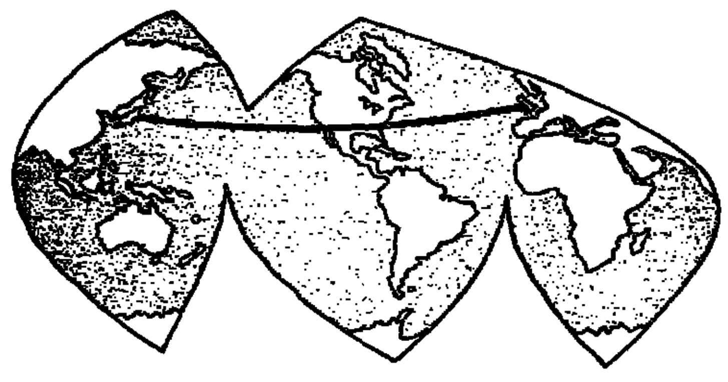
The new international language

Whatever the means of communication – be it telephone, fax, video, or even computer data – the ISDN (Integrated Services Digital Networks) service developed by KDD, AT&T and BT can connect you immediately with associates in the major business centres of the world.

For companies who already have a private global network, ISDN enhances its performance, adding previously unattainable flexibility.

And, because this service will be developed further in collaboration with other leading international communications carriers, it will be a major force in the standardisation of all future ISDN technology.

The combination of optical-fibre cables and ISDN has already opened up a new era of high speed, high volume communications with digital technology (whatever happened to that voice saying "lines from London are engaged, please try later"?) But it's not just in this field that KDD is setting the pace for everyone in the communications business.

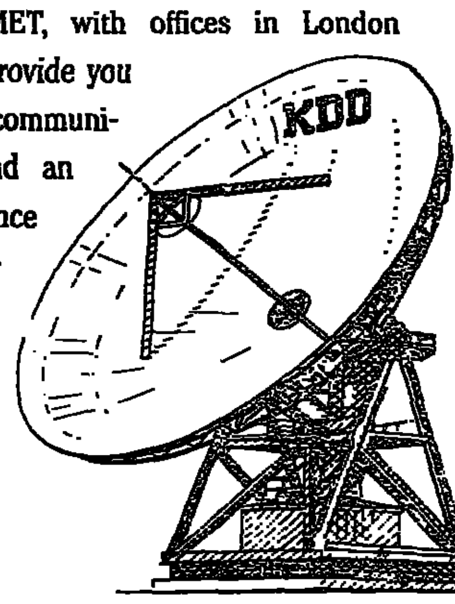


A room of your own

There's our joint TELEHOUSE project. Soon to be completed, TELEHOUSE EUROPE will offer UK and European businesses all the facilities for communication and computer equipment – without the problems associated with setting up and running your own in-house Information Technology centre.

Close to the City in London's Docklands, the TELEHOUSE building is a totally new concept providing fully-operational fully-serviced Information Technology capabilities within a purpose-built centre.

And TELECOMET, with offices in London and Dusseldorf, can provide you with high quality telecommunication equipment and an after-sales maintenance service that has already positioned the company at the forefront of telecommunications innovation and development.



These are just two more reasons why people who rely on the best international communications turn to KDD. Our customers soon appreciate that, in a smaller world, business opportunities tend to grow all the time.

KDD
Kokusai Denshin Denwa Co.,Ltd.

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GENEVA (22) 7341940
MADRID (1) 261-0754
PARIS (1) 47-20-64-43
ROME (6) 678-6290
CAIRO (2) 769559
NEW YORK (212) 832-3550
WASHINGTON (202) 944-7900
SAN FRANCISCO (415) 442-3005
BANGKOK (2) 236-0232
BEIJING (1) 512-6222
SHANGHAI (21) 20-2129
HONG KONG (5) 256333
JAKARTA (21) 578-2819
SEOUL (2) 778-7766
SINGAPORE (222) 1692
SYDNEY (2) 231-2617
BUENOS AIRES (1) 322-3911
SAO PAULO (11) 284-9377

The European Commission faces a dilemma, reports **William Dawkins** from Brussels

Moves to break monopolies' stranglehold

THE CRUSADE to break public monopolies' stranglehold over the provision of telecommunications equipment and services in the EC has embroiled the *European Commission in a* revealing dilemma.

Market liberalisation is the dominant theme of the Commission's design for a free internal market in this traditionally cossetted and protected industry.

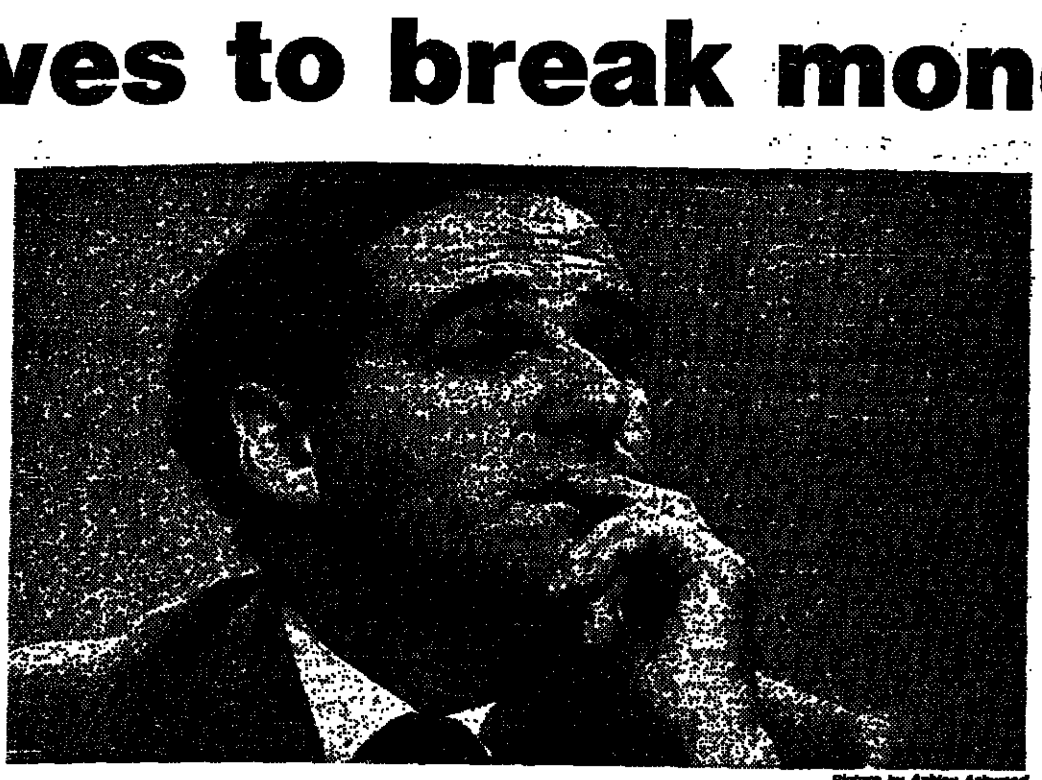
In that sense it is pushing with – and in some cases very much ahead – of the very different styles of telecommunications industry deregulation being pursued at different speeds in the UK, Germany, France and Italy.

The paradox is that the Commission has found it necessary to regulate at the same time as carrying out its liberalising zeal. It has done this by tabling detailed rules for the conditions under which *private* service operators gain open access to public networks (ONP).

Several Governments, led by the UK, feel this goes right against the spirit of telecommunications deregulation.

Brussels argues that these rules are needed to ensure that public authorities do not abuse their powers and use obscure technical standards to keep private operators off their networks.

"Liberalisation and harmonisation go hand in hand," insisted Sir Leon Brittan, Competition Commissioner recently. Yet northern economic liberals like Britain argue that the ONP plan threatens to suffocate deregulation.



Picture by Ashley Ashwood

Sir Leon Brittan insists: "Liberalisation and harmonisation go hand in hand."

The outcome of the broader *debate on telecommunications* will be crucial because EC legislation will have a deeper and more pervasive influence on this sector post-1992 than in almost any other industry.

This is partly because Community competition rules give the Commission unusual – and controversial – powers to issue laws on public services monopolies like postal and telecommunications authorities (PTTs) without going through the normal process of consulting member states.

Brussels has made full use of its authority in this respect. In the process, it has landed up in *the European Court of Justice*, accused of overstepping its powers by France, Italy, Belgium and West Germany.

At the same time, the Commission places the highest importance on telecommunications as the basic business infrastructure of the future, a market that it estimates will be worth up to 7 per cent of the EC's Gross Domestic Product by the end of the century (as against around 3 per cent today), by which time more than 60 per cent of European jobs are expected to depend directly and indirectly on telecommunications.

One senior Commission official likens the importance of the task to a contemporary equivalent of building railways across early 19th century Europe.

Brussels' strategy for opening *the EC telecommunications* market to free competition is laid out in the Commission's 1987 green paper on the subject.

Most of the proposals in that wide ranging document are now either in the early stages of being put into effect or on the table. They include the ending of exclusive rights to supply terminal equipment; the liberalisation of value added services, followed later by deregulation for basic data transmission; the technical rules for free acess to networks; the separation of telecommunications authorities' regulatory and powers from their operating roles; the creation of a European Telecommunications Standards Institute (Etsi); *common standards* for satellite communications and for the broad band telecommunications of the future.

The main action so far has centred *on the related* areas of telecommunications equipment manufacture and the provision of services through public networks.

Historically, PTTs have tried to keep the two sectors together to guarantee a reliable – and incidentally profitable – source of equipment to plug into the networks they run. The Commission has different ideas.

Its first onslaught was early last year, when Brussels made use of the rarely tested Article 90 of the Treaty of Rome, to *issue its telecommunications* terminals directive, without going through the usual months-long process of consulting member states.

This tactic provoked fierce criticism from several European Governments. But member states stopped short of trying to block the scheme because they generally liked its aims, despite their anger at the Commission's style.

The equipment directive obliged member-states to start legislating by the middle of this year for the free supply of modems, PBX private exchanges and subscribers' second and subsequent telephones.

This first stage of liberalisation covers roughly half the EC's Ecu17.5bn telecommunications equipment market. National legislation is to be tabled by the end of *this* year to liberalise sales of telex terminals, data transmission equipment, mobile telephones and satellite receiver *dishes*.

The outcome of the EC *telecommunications* debate will be crucial

The final phase, for national legislation to get started by the end of next year, covers subscribers' first telephone sets. *This is the hardest part for* PTTs, among which all but France and the UK reserve the right of supply of first telephone sets for themselves.

Much to member-states' annoyance, the Commission *used* Article 90 again at the turn of the year issue a much more important directive, to liberalise the Ecu64bn telecommunications services industry.

Equally, it was a more provocative step in political terms, because several member states like Italy, France, Spain and Greece have serious doubts about the directive's content *as* well as its legal approach.

They want indefinitely to keep competition out of the provision of basic computer data telecommunications – like the transmission via telephone of information from one desk top terminal to another – a small but very fast growing part of the service.

PTTs must give up their control over basic data communications by January 1993, under the final version of the directive, adopted by the Commission last month. The Commission's argument for liberalising basic data services is that it is in practice impossible to distinguish between these and value added services (Vans), like electronic mail, teleshopping and videotext, also to be liberalised under the directive.

Here it follows the experience of Britain, which for the same reason freed both basic data and Vans during its own telecommunications deregula*tion. Value added services* will accordingly be due for deregulation when the directive comes into force on or soon after April 1990.

The final date depends on member states' progress in *agreeing the equally controver*sial ONP scheme, which by contrast is going through the normal EC decision making processes.

Sir Leon Brittan, *the Com*missioner for Competition, introduced this element of flexibility at the last minute to try to appease member states' aversion to the Article 90 strategy.

Normal voice telephone services, meanwhile, will be left under PTT's sole control, following the West German and French model of cautious liber*alisation, rather than the UK* option of a second independent telephone service, as provided by Mercury.

Telex will also continue to be a public monoply on the grounds that it is a declining market that deserves protection in the public interest.

Equally, PTTs will continue to have sole responsibility for providing the physical networks themselves, *such as* traditional telephone lines, fibre optic links, micro-wave and *satellite* links, radio *telephone* and cable television. This is again in line with the trend in most European countries, except for the UK, to maintain network monopolies.

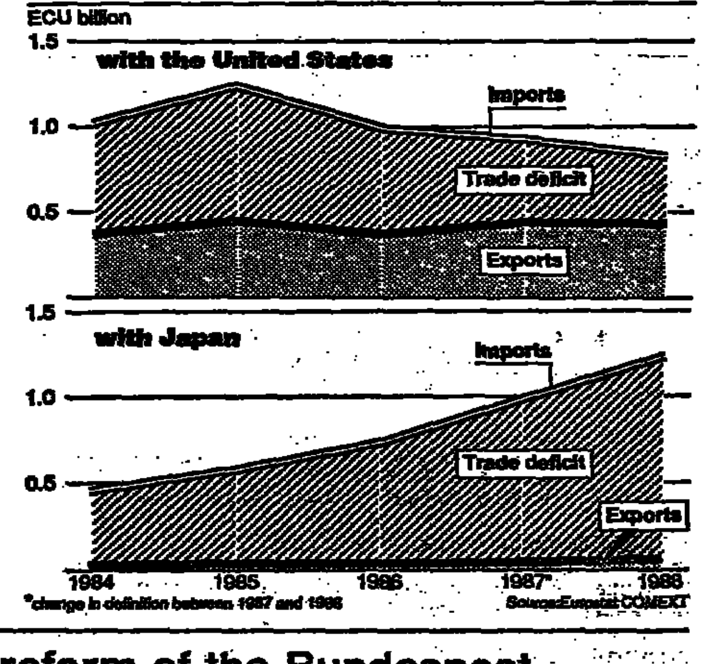
The terminal equipment and services plans are the central parts of the Commission's telecommunications policy. Around them hang a host of supporting measures, the general thrust of which is to smooth out the fragmentation *that puts* the EC market at a perennial disadvantage against its US and Japanese equivalents.

These include plans, awaiting EC Governments' approval, to extend existing rules on free public procurement to telecommunications.

Another obliges member-states to guarantee free market access to any telecommunica*tions terminal made to* EC technical requirements, in contrast to the present situation where equipment needs clearance by 12 individual national *standards authorities*.

The big test – as with a great deal of EC internal market legislation – will come when Governments actually have to enforce the rules, bringing some of them face to face with the hard fought interests of their national PTTs.

EC telecommunications equipment trade



Radical reform of the Bundespost

West Germany now a leading advocate for more liberalisation

WEST GERMANY was, in the past, seen by advocates of telecommunications liberalisation as the leader of the enemy forces.

Outsiders complained that telephone tariffs were excessive, that the Bundespost took every opportunity to stifle competition – and new services therefore failed to develop. Moreover, in the international arena, West Germany was regarded as an obstacle to change.

Now, however, Germany is thought by many to be on the side of the angels. After years of debate, the country's new law for reforming telecommunications came into effect at th beginning of this month.

Under this law, the door to Europe's largest telecommunications markets is being half-opened to competition. The Bundespost is also being restructured with the aim of making it less bureaucratic and so more responsive to its customers.

This change in mood is perhaps best illustrated by the fact that, far from being an obstacle, Germany is now a leading advocate of further liberalisation throughout the European Community.

Along with Britain, it is the ring-leader of the countries supporting EC's Green Paper.

The most exciting opportunities are in mobile and data communications

In fact, it may be more effective than the UK in winning round the doubters because of its close political ties with France.

The German Government now goes so far as to claim that it has instituted a more liberal telecommunications regime than any other European Country – including Britain.

This, however, is a technicality. The Bundespost is not being privatised; no competition will be allowed in supplying the basic network; and voice telephony will remain a monopoly. Britain has moved on all three areas.

Even so, the Bundespost reform has the capacity to shake-up German telecoms. Observers predict that the monopoly services will account for only two-thirds of the Bundespost's revenue by the middle of the next decade – down from about 90 per cent now.

When the private sector is added in, the effect will be that only half Germany's telecoms market will be covered by monopoly rights. This is because the non-monopoly areas are growing very fast.

The most exciting opportunities are in mobile and data communications.

On the mobile side, the German Government has decided to license a second operator in competition with the Bundespost for cellular communications by the end of the year.

This contest has already drawn a glittering cast of applicants from across the world. The winning consortium has the *prospect* of being granted one of the most lucrative franchises ever handled by a government to the private sector.

In data communications, the main opportunities will be in leasing lines from the Bundespost for basic and value-added services.

Because Germany is still poor in these advanced communications services, there is great potential for private operators to innovate, outwit the Bundespost and tailor services to individual needs. Nevertheless, doubts remain as to whether the new regime, which promises free competition in these areas, will be able to guarantee it in practice.

One concern is that the dividing line between monopoly and non-monopoly areas is fuzzy.

This could allow the Bundespost to expand the definition of its monopoly to include many of the markets which would otherwise be attractive to private operators. In theory, only basic voice telephoning will remain a monopoly.

The Bundespost might be expected to win out over private operators because it will have excellent access to the minister's ear. Critics would have preferred the institution of an independent regulatory body, on the lines of the UK's offer.

Another key purpose of the Bundespost reform is to revamp its internal bureaucracy. This should make it more efficient, dynamic – and so lead to lower costs.

'The door to competition is being half-opened'

However, given that both privatisation and competition on the basic networks are excluded, West Germany has few instruments with which to achieve the necessary change in culture. Instead, it is relying on performance-related pay to provide the incentive.

Even this scheme, though, has been watered down by political controversy, leaving the impression that this is an example of using a nutcracker when a sledge hammer is required.

A further element is the division of the Bundespost into three businesses:

□ Telekom.
□ Postdienst, the postal service.
□ Postbanks.

The idea was that each would be run as a separate commercial enterprise without political interference. However, this separation has not happened as cleanly and neatly as many wished.

The three businesses will still be responsible to a common directorate and, parallel to this, will be a special infrastructure council, made up of political appointees, which will have a major say over the matters such as new investment and tariff charges.

As a result, some critics doubt whether Telekom will be run on a genuinely commercial basis.

Even so, the Bundespost reform is for Germany a radical step. And the country can claim to have one of the most liberal - if not the most liberal - telecoms regimes in Europe.

Hugo Dixon

INTERNATIONAL TELECOMMUNICATIONS-13

Top 50 countries by base of installed main telephone lines

Rank	Country	Main Lines	Per cent of World Total
1	United States	121,475,000	28.3790
2	Japan	46,325,000	10.8202
3	USSR	29,475,000	6.8845
4	West Germany	26,399,284	6.1661
5	France	23,911,007	5.5849
6	UK (March 1987)	22,137,000	5.1706
7	Italy	18,252,973	4.2634
8	Canada	12,252,580	2.8614
9	Spain	9,801,009	2.2892
10	South Korea	7,669,000	1.7889
11	Brazil	7,249,741	1.6933
12	Australia	6,668,006	1.5575
13	China	6,596,000	1.5408
14	Netherlands	6,029,090	1.4062
15	Sweden	5,373,000	1.2550
16	Taiwan	4,728,919	1.1045
17	Mexico	3,820,568	0.8924
18	Switzerland	3,361,492	0.7852
19	Greece	3,291,971	0.7689
20	Belgium	3,257,390	0.7608
21	India	3,185,214	0.7393
22	Argentina	2,859,209	0.6678
23	Austria	2,818,437	0.6583
24	Turkey	2,779,815	0.6493
25	Yugoslavia	2,720,391	0.6355
26	Denmark	2,683,000	0.6267
27	Poland	2,625,111	0.6131
28	South Africa	2,403,446	0.5614
29	Finland	2,272,000	0.5307
30	Czechoslovakia	1,944,000	0.4541
31	Norway	1,861,412	0.4348
32	Hong Kong	1,844,403	0.4308
33	Colombia	1,798,793	0.4201
34	East Germany	1,630,207	0.3808
35	Portugal	1,511,559	0.3531
36	Iran	1,480,235	0.3457
37	Romania (1979)	1,480,000	0.3457
38	Bulgaria (1983)	1,362,700	0.3183
39	New Zealand	1,327,788	0.3101
40	Venezuela	1,321,763	0.3087
41	Israel	1,313,000	0.3067
42	Saudi Arabia	1,082,626	0.2529
43	Egypt	1,076,450	0.2514
44	Malaysia	1,042,627	0.2436
45	Thailand	878,339	0.2052
46	Singapore	830,497	0.1940
47	Hungary	770,000	0.1798
48	Ireland	750,805	0.1754
49	Iraq (1985)	745,222	0.1741
50	Algeria	578,571	0.1351
TOTAL		419,030,128	97.8733

1984 or latest figures; source: TRC

French telecommunications system

World's most highly digitalised network

AT THE beginning of 1988, the French telecommunications authority, previously a ministry division known as the Direction Générale des Télécommunications, or DGT, changed its name to France Télécom.

In the mind of Mr Gerard Longuet, the minister for posts and telecommunications in the right wing administration of Mr Chirac, the name change symbolised a transformation into a more commercially oriented organisation.

Mr Paul Quilès, who replaced Mr Longuet when the socialist government of Mr Michel Rocard took office a year ago, has a markedly less enthusiastic approach to the problem of deregulating the telecommunications market than his liberal predecessor. A report he commissioned on the future of both the postal and telecommunications services rejects the possibility of turning France Telecom into an ordinary commercial company.

France Telecom remains, therefore, a branch of government, with all the complications that entails: subjection to the normal state budgetary rules, although unlike the spending ministries it finances itself from its receipts and not from taxation; adherence to civil service pay scales; and dependence on the government for its pricing policy.

It also carries the risk of being used by the government as a useful alternative to direct state funding, as happened last August when France Telecom and its subsidiary Cogecom were called in to rescue the ailing TDF1 and TDF2 satellite broadcasting programme, of whose technological choices it had long been critical.

In 1988, however, a step was taken towards ordinary corporate status when telecommunications were subjected for the first time to value added tax (VAT).

The application of VAT sliced FFr15bn off France Telecom's potential receipts, causing a drop of 7 per cent in turnover to FFr87.6bn. Net profits plunged for the same reason to FFr1.5bn, compared with FFr9bn the previous year.

But France Telecom has reasons for satisfaction with its activity, in a year which saw the number of telephone lines increase by 1m to 25.8m — 95 per cent of French homes now have a phone — and telephone traffic rise by 3.9 per cent. Inter-city tariffs were cut three times in 1988, continuing a policy of shifting the balance of charges which had favoured local calls.

In addition, France boasts the world's most highly digitalised telephone network, with 71 per cent of its intercity switching equipment now digital. The process was crowned in November with the launch of Numeris, a new integrated services digital network (ISDN) blending the digitalised public switching network with the telex, public data and other existing telecommunications networks.

Numeris is already offered to businesses in Brittany and the Paris region, and the service, which allows the connection of "intelligent" telephone sets, is expected to be spread to the rest of the country by the end of next year. France Telecom forecasts 500,000 subscribers by 1995.

Other corporate telecommunications sectors also saw rapid expansion last year, led by explosive growth in the fax market, which is growing currently at an annual rate of 70 per cent, and totalled 185,000 terminals at the end of 1988. Each fax machine is used to send an average of 17 pages a day, France Telecom calculates.

While the traditional telex continued to expand steadily to total 151,000 lines at the end of the year, Teletex, the international electronic mail system opened in 1985, tripled last year and now numbers 10,000 subscribers. Transpac, the France Telecom subsidiary which is the world's largest packet switching network, recorded a 14 per cent increase in traffic last year and now transports around 1,500bn characters a month.

Rapid growth has also taken place in the mobile communications market, where France Telecom's monopoly has been opened up to competition. Radiocom 2000, the radio telephone service operated by France Telecom with Matra equipment, more than doubled its subscriptions to 98,000 at the end of the year, accounting for nearly 90 per cent of France's total radio telephone service.

A new competitor, however, has just started operations. Société Française de Radiotéléphone (SFR) is operated by a subsidiary of Générale des Eaux, the water and services group, with equipment developed by Alcatel and Nokia. Its wavelengths will allow it to service 100,000 customers, a third of them in the Paris region.

The number of wavelengths made available in France for radio telephone services, however, is limited. The two networks combined will become saturated in three or four years time with around 350,000 subscribers, compared with the 500,000 radio telephones already in service in the UK.

France Telecom has, however, just launched the Telepoint portable telephone consortium of British Telecom, where users will be able to make, though not receive calls as long as they are within 200 metres of a special radio terminal. The system is to be commercialised in France under the name of Pointel.

One of France's proudest telecommunications achievements, the Minitel videotext system, is also at the moment one of the most contested. The system has developed to boast 4.7m terminals at the end of June, with 34.5m hours of use in the first six months of 1989.

But the Cour des Comptes, a state auditing body, has just attacked the economic justification of the programme, hitting at its very foundation: the free distribution of terminals to private users.

The Cour says that France Telecom had invested FFr8.3bn in the Minitel programme by the end of 1987, but had recouped only FFr2.94bn. By 1995, it noted, there would still be a cumulative deficit of FFr4.1bn.

France Telecom, on the other hand, says that adding in Minitel-related receipts from its Transpac subsidiary gives a 9 per cent return on the investment, quite apart from the benefits to the rest of French industry.

According to a study carried out by Tersud for France Telecom, direct Minitel services generated FFr1.05bn of added value last year, while indirect fall-out from the Minitel programme, such as advertising, hardware and software sales, generated a further FFr2.425bn of added value.

What seems to be certain is that the Minitel system is now starting to come of age. After a surge built on sexy message services and electronic games, private use of the Minitel has flattened off and is now shifting towards practical information services.

While the electronic telephone directory remains by far the most used service, mail order sales, transport timetables and bookings, and home banking have now overtaken game and message services, according to a France Telecom survey.

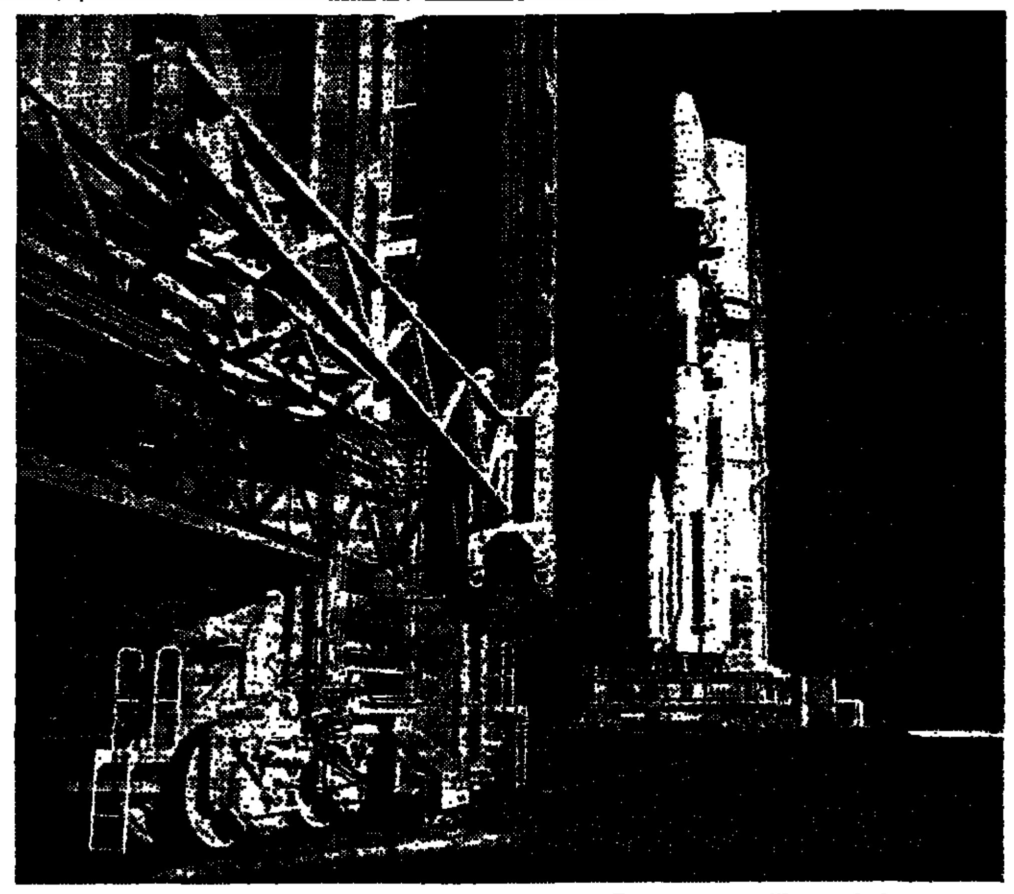
At the same time, corporate use of the Minitel for purposes such as stock and order management or professional database services has taken off. This has been helped by opening access points overseas in countries like the US or, more recently, Japan, to enable companies to link up their foreign operations to the Minitel.

Meanwhile, France faces over the coming months growing pressure from the European Commission to deregulate the telecommunications market further, including a reduction in the semi-overt protection practised by not granting authorisation to foreign-manufactured equipment such as faxes, answering machines or computer modems.

Mr Quilès shows no intention of letting himself be pushed about by Brussels, and has already filed a suit in the European Court to complain about a Commission directive liberalising equipment sales without the approval of the Council of Ministers.

"I have no intention of anticipating or accentuating the deregulation which we are experiencing," he commented recently: "It's a bit like rain: even if you don't like it, there is not much you can do to stop it."

George Graham



The West European Ariane space rocket carrying a European satellite and Japan's first commercial telecommunications satellite, pictured at Kourou, French Guiana.

Equipment manufacturing in Italy

New bridgehead planned into European markets

A FOREIGN diplomat based in Rome had some difficulty in having a telephone installed in his apartment after arrival — the waiting time is usually measured in months, rather than weeks.

Tired of a long delay, he made vigorous protests to Sip, the national telephone company, which eventually resulted in an installed telephone.

In the following days, his telephone rang repeatedly with callers seeking repair work of some kind or another for their motor cars. Quicker in making a mental connection than Sip in making a telephonic, the diplomat visited a garage in the south-west of Rome whose owners were incandescent at the sudden non-functioning of their telephone line.

The Sip had quite simply transferred the garage's line to the diplomat, presumably believing that the needs of the latter could easily justify the inconvenience to the former.

Had he lived in Italy in these times, Franz Kafka would certainly have broadened his education in the world of Italian telecommunications, which is only now struggling to adjust from viewing the telephone subscriber as a "user" to appreciating him or her as a "customer."

Sip is even introducing some limited rights of redress if a service is not provided within a promised timeframe.

Kafka might also have garnered some rich material from the fragmented nature of the telecommunications industry which in the past has helped to serve one of the dominant priorities in the public sector — avoidance of any clear allocation of responsibility.

So it is that Italy has three telephone operating companies; Sip, Italcable, which handles overseas traffic, and ASST, a trunkline operator owned by the Ministry of Posts and Telecommunications.

The Sip-Italcable interface works tolerably well, one does not seem to have to dial an overseas number more often than one does, say, in London. But inter-urban calls in Italy pass from Sip to ASST and then back to Sip again, too frequently, it seems, tumbling through cable cracks on the way.

If it is raining in Rome, one hardly ever succeeds in making a connection at the first attempt. This is not a source of satisfaction to most Italians, and a general awareness that poor quality of service allied to unsatisfactory structures could be a highly undesirable competitive handicap in the European single market is at last producing both actual and prospective change.

The change is still more prospective than actual as far as the proposed re-organisation of the operating companies is concerned.

Stet, the state-owned telecoms holding company, produced a plan in early 1988 for merging the operating businesses — Sip, ASST and Italcable — and for transforming itself into Italy's single telecommunications operator.

Unfortunately, the transfer of ASST required parliamentary approval of a special law and this has been delayed both by technical and financial considerations — how to make sure than ASST's 13,000 employees did not lose their superior pension rights as a result of the change — and by the usual parliamentary inertia.

No reliable forecast can be made as to when the proposed union can take place.

On the telecommunications manufacturing side, Italy has been doing its best to strengthen a weak international hand. Telettra, the Fiat-owned company specialising in switching systems, has been building up a number of international alliances, particularly with Spain's Telefonica.

But most national hopes are now resting on the deal signed in early June which, through exchanges of shareholdings, hitches the fortunes of the relatively small state-owned Italtel to the vast multinational wagon of American Telephone & Telegraph (AT&T).

As a strategic move, the deal could enable Italtel — annual sales in 1988, L1,700bn — to make that qualitative leap into the international big time which its size and limited product have hitherto made impossible.

Details of the operating ambitions of the two companies as defined in their agreement are only now beginning to emerge and they suggest that AT&T is determined to exploit every possibility of making Italtel its bridgehead into European telecommunications markets.

No fewer than nine joint developments are envisaged ranging from developing "intelligent networks" to be attached to Italtel's Linea UT public switching system, to developing more efficient maintenance systems for public telecommunications and to developing a common catalogue of products for transmission systems.

National hopes are now resting on the deal signed in June between Italtel and AT&T of the US

On the private telecoms front, Italtel is to market in Italy AT&T's Systems 75 and Definity products and the two companies are to set up a single sales company for western Europe under AT&T control.

This sudden access to new technology, new products and new projects is bound to prove something of a strain for Italtel's management.

In a recent magazine interview, Mr Giovanni Barbieri, Italtel's director general, admitted that the company was still hardly ready for the new challenges, and that an intense period of training and preparation was still necessary. His tone was very much that of a man who is finding the water deeper than anticipated.

John Wyles in Rome

World's top 20 telecommunications equipment exporting countries

Rank	Country	Value US $ million	% of top 20 countries
1	Japan	2,948.5	29.7
2	West Germany	1,114.5	11.2
3	United States	964.5	9.7
4	Sweden	851.1	8.6
5	Canada	543.5	5.5
6	France	487.4	4.9
7	South Korea	459.5	4.6
8	Belgium	411.3	4.1
9	Taiwan	396.3	4.0
10	United Kingdom	350.9	3.5
11	Hong Kong	263.6	2.7
12	Netherlands	210.8	2.1
13	Finland	209.8	2.1
14	Italy	198.6	2.0
15	Singapore	129.0	1.3
16	Switzerland	122.9	1.2
17	Norway	87.7	0.9
18	Denmark	71.5	0.7
19	Austria	58.2	0.6
20	Spain	50.6	0.5
	TOTAL	9,932.0	100

Source: TRC and government statistics

The US has seen many changes since the breakup of AT&T in 1984, reports Rodrerick Oram

Competitive ding-dong among the Bells

FIVE YEARS after the break-up of American Telephone and Telegraph and the start of deregulation of US telecommunications, three distinct types of player have evolved each with different and fast diverging strategies.

AT&T's local telephone operations across the country which constituted the dominant Bell system were spun off into seven "Baby Bell" regional holding companies. AT&T was left to face fiercer competition in long distance services but was allowed to enter new and unregulated businesses.

This set a new stage for the three types of companies: the regional Bells, the long distance carriers and the independent non-Bell companies some of which can offer both local and long distance service through a quirk of regulation.

The regional companies, hardly babies since each of their annual revenues range from $10bn to $15bn a year, have differed on diversification. At one end of the spectrum, Ameritech has stuck closely to providing telephone service in five midwestern states. At the other, US West and BellSouth, for example, have pushed aggressively into overseas ventures.

Ameritech's strategy has reaped the highest reward so far. The Chicago-based company achieved an annual return on equity of 15.4 per cent in the financial year 1986-88 against an average of 14.1 per cent for the other six Baby Bells.

Last year its net profits rose 4.1 per cent while BellSouth's was essentially flat even though it serves an economically vibrant region of the country. Ameritech has had some misfires with its own strategy such as losing some $50m buying a software company in 1986 and selling it in 1988. But it has also prospered from, for example, helping to pioneer cellular telephone services with Chicago the first US city served.

Internationally-minded Baby Bells such as BellSouth argue that telecommunications is increasingly a global business so their future lies in learning how to do business abroad. They see foreign markets as places to sell their existing expertise and to learn new skills which they are not allowed to offer yet in the US.

BellSouth, for example, sells telephone equipment and service in Shanghai, cellular service in France and paging in the UK, all businesses it pursues in the US. US West's foreign activities include cable television joint ventures in the UK, a business it hopes regulators will eventually allow it to develop in the US.

Competition has pushed down rates by nearly 50 per cent in the past five years

The regional boundaries between the Baby Bells began to breakdown as soon as they were drawn. Ameritech, for example, competes against Southwestern Bell to supply cellular services in Chicago. Further down the road, the Baby Bells may be allowed to offer long distance services.

AT&T is aware of this possibility and, pressed hard by current long distance competitors, has made huge strides in turning itself from a complacent, bureaucratic, regulated utility into an aggressive corporation responsive to customers and driven by the profit motive.

Its share of the long distance market has fallen from roughly 90 per cent pre break-up to about 75 per cent, with MCI Communications and US Sprint making the biggest inroads followed distantly by a gaggle of small systems and re-sellers of services.

Competition has pushed down the long distance rates by nearly 50 per cent in the past five years and new types of services have proliferated. More importantly, AT&T, MCI and Sprint have invested heavily in fibre optics with benefits in higher quality and lower cost of transmission.

MCI and Sprint are reporting rapidly rising sales and profits now that their investment programmes are behind them. They have both targeted large corporate users with notable success at winning business from AT&T.

AT&T has in the past year or so has started to fight back far more effectively. It got a big lift earlier this year when the federal government changed the way it regulates AT&T. Instead of being limited to a maximum return on assets, it has broadly speaking only to comply with price caps. This will not only increase the flexibility of its pricing practices but also allow it to increase its profits by driving down costs. Thus, the new system is a real incentive to AT&T to become even leaner and meaner in the marketplace.

The Federal Communications Commission, the industry's regulatory agency, is also planning to switch regional Bell holding companies to the same system. Although this would significantly ease the regulatory burden on them at the federal level, they will still suffer from regulations at the state level which in a number of cases are cumbersome.

At the federal and state level, AT&T and the regional

Regional boundaries between Bells began to breakdown as soon as they were drawn

Bells are fighting to roll back what remains of regulation. AT&T, wants to enter the electronic publishing business. At the moment it can only transmit information generated by independent data bases and other interactive service.

A number of the regional Bells are lobbying for the right to transmit cable television signals and to own cable television companies. In the forefront of the fight is Pacific Telesis, the California Bell holding company, which is seeking approval for its purchase of a majority of a small Chicago cable company.

Permission to enter the cable business would open the door to a wide range of new services which in turn would finally make economic the provision of fibre optic services into homes.

Last but far from least are the independent telephone companies. Contrary to a common misconception, the US telephone industry is not entirely populated by Ma Bell or her progeny.

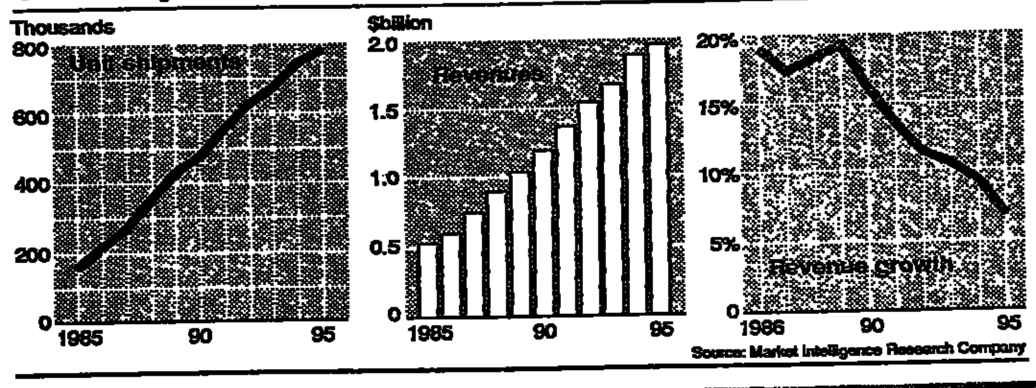
Though the independents have only a small share of the overall market, there are more than 1,400 of them. Thanks to the large and growing degree of deregulation they are growing in importance and number. They range from companies serving only their local community up to the likes of GTE which provides 14.4m lines in 31 states or United Telecommunications which serves nearly 4m subscribers.

US Sprint is owned 80 per cent by the latter and 20 per cent by the former. This sector also includes the hot cellular telephone companies. The country is divided into operating areas with two licensees in each – one was given to the local regional Bell and the other to an independent.

In some cases the independent licence has been taken over by a competing Bell company, as in Chicago. But elsewhere a number of players have built up large stakes. The largest company in cellular industry in terms of population in its licence areas is McCaw Cellular Communications. British Telecom was attracted by its growth prospects, and took a 20 per cent stake in McCaw earlier this year for $1.37bn.

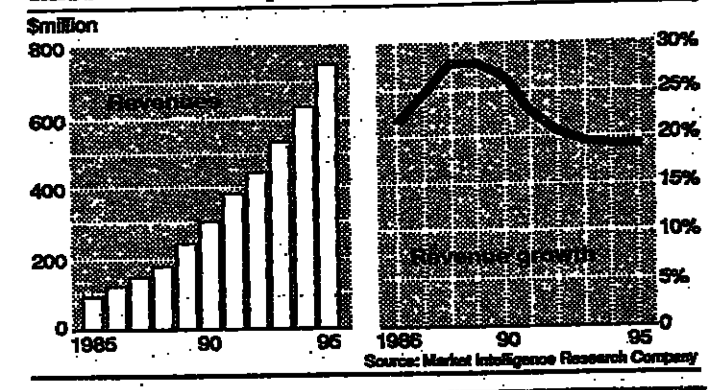
The far bigger challenge for the likes of McCaw, now that they have amassed territories, is to vastly increase the subscriber base. The cost of equipment is falling fast but the cost of service is still high and the quality patchy. Although cellular could be the telecommunications story of the 1990s, the industry has a long way to go before it can consider itself a true rival to traditional wire-based telephone services.

US multiplexer market forecasts

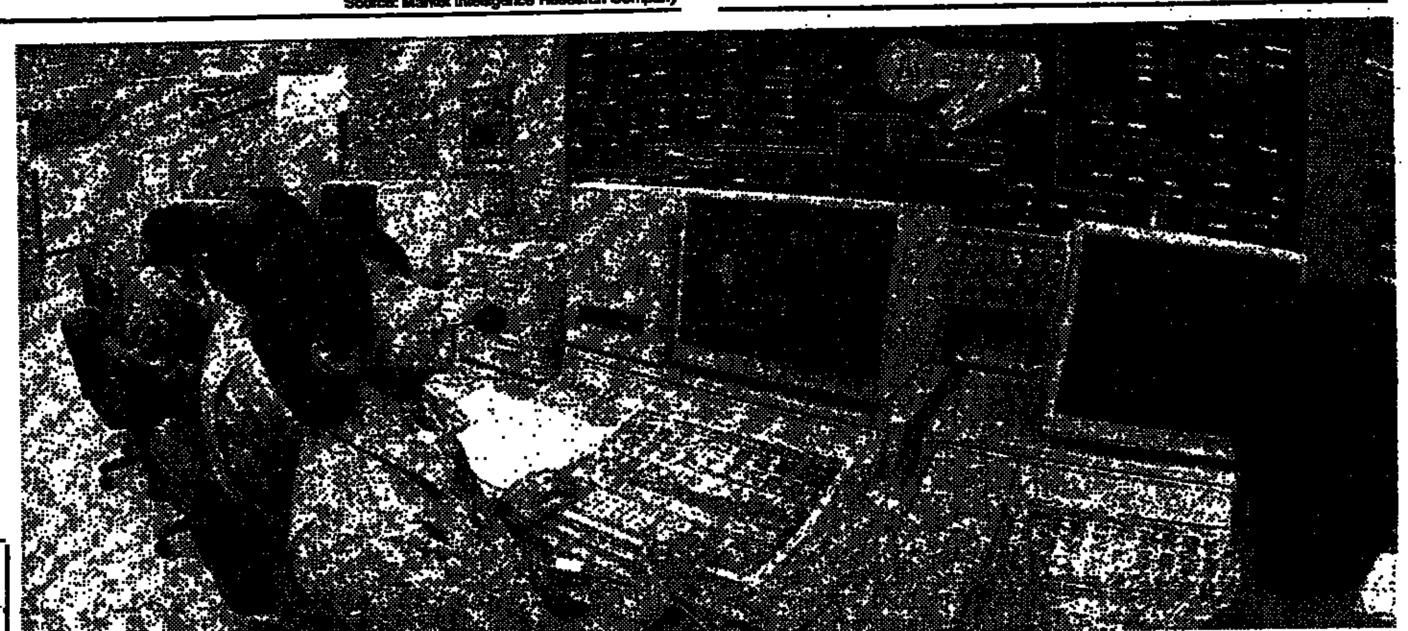


Source: Market Intelligence Research Company

East Asian multiplexer market forecasts



Source: Market Intelligence Research Company



■ In the US, (left), customers examine a range of new telephones at a Bell Phonecenter at a Sears department store. ■ In Japan, (right), contractors test communication equipment in the control room of the space chamber at the Tsukuba Space Centre, Ibaraki. Telecom equipment production in Japan totalled Y2,114bn in the financial year 1987-88. Exports amounted to Y676.3bn while imports totalled Y49.6bn. Exports to the US in 1987 reached Y259bn, up 10.6 per cent from the previous year with imports from the US declining 0.3 per cent to Y61.4bn during the same period.
Picture by Ashley Ashwood.

Access to the Japanese market still agitates foreign competitors

Open approach to tackle unresolved trade imbalance

ON THE cover of the new Ministry of Post and Telecommunications Japan market outline pamphlet, the word "open" in huge boldface capital letters crystallises the theme promoted in its 45 pages.

Furthermore, a table showing recent results of telecom market opening measures gives the impression that foreign companies, mainly from the US, are making substantial inroads into the Japanese market.

One name, Motorola, crops up in enough places to leave no doubt that it does not expect to be overshadowed by the likes of IBM, Hughes or AT&T.

Motorola, a large electronics equipment maker, operates through its affiliate, Nippon Motorola. It sells pocket pagers and cellular telephone devices to Nippon Telephone and Telegraph (NTT), central equipment and pagers to Tokyo Telemessage and helps operate private MCA trunk systems throughout Japan.

Daini Denden, part of the Kyocera Group, an incipient competitor to NTT, plans to use the Motorola system for its cellular telephone services in the near future.

The situation, however, is far from clear. The US took Japan to task in the June telecommunications trade negotiations following Motorola's accusations of unfair trade practice under the US Omnibus Trade Bill.

The MPT pamphlet quotes Mr George Schultz, US Secretary of State, on "a remarkable success, substantially resolving all problems raised in the course of the MOSS (open market sector selective) discussions." It includes, as a primary result of the 1985 talks, an item that confirms a revision of cellular phone technical standards in order to accommodate the Motorola system.

Problems remain in spite of this summation. Among the MOSS results was an agreement to do a full review of telecommunications legislation and, in particular, to abolish the distinction between special, and general, type two telecommunications business. A US government official says Japan agreed to abolish the distinction but later reneged. Transparency of frequency allocation has been another sticking point since MOSS.

Market data supplied by MPT suggests another reason why telecom market access continues to agitate many potential foreign competitors. Telecom equipment production in Japan totalled Y2,114bn in the financial year 1987-88. Exports amounted to Y676.3bn while imports totalled Y49.6bn. Exports to the US in 1987 reached Y259bn, up 10.6 per cent from the previous year with imports from the US declining 0.3 per cent to Y61.4bn during the same period.

The value of wire communications equipment exports by Japan in 1987 totalled over

The US took Japan to task in the June telecommunications trade negotiations

competitors like Daini-Denden and Nihon Telecom of the Japan Railways Group are starting to eke out small but fast-growing niches in the telephone service market.

In the battles that are just getting under way, NTT has tremendous resources. Although Mr Stern says European companies have found entry to the Japan Telecom market considerably eased by the US-Japan trade negotiations, the main barrier for small and medium-sized companies is often money. Nippon Motorola will have to spend about Y10bn to set up an infrastructure that can handle its mobile telephone operations in the Tokyo-Nagoya region.

"Motorola was first so we can't complain because they are prepared to spend," Mr Patrick Carroll, a technical adviser to MPT on European telecom standards, says. However, Mr Carroll likens the Motorola approach to gaining access as "blackmail" and says a company with less financial and political resources would have been rejected.

For companies bold enough to persevere, the prospects are encouraging. Besides gaining the cellular telephone rights to Y524bn with imports, including payments for satellites, at only Y38.2bn. Even more lopsided was the export total of Y269bn for transmission equipment while less than Y1bn was spent on imports.

In the face of the imbalance in the telecom trade with Japan, foreign companies seem more willing to resort to the use of political pressure. Japanese trade officials have admitted to their US counterparts that without pressure from the US government certain market demands made by US companies would not even have been considered.

This was certainly the case two years ago when Cable and Wireless, the UK telecoms group, summoned up political clout from the highest levels of the British Government to get the Japanese to honour their pledge to open the international telecoms field to foreign companies.

International Digital Communication (IDC), the consortium in which C&W is a principal shareholder, won a license after a long battle and began private line operations last spring. It is one of two carriers due to start public service in the autumn in competition with Kokusai Denshin Denwa (KDD).

Mr John Stern, vice-president of Asian operations for the American Electronics Association says one problem that trade negotiations have not yet solved is to what extent the Japanese government is in business to adjust market access based on projections of market growth.

A US carrier applying for a license to operate a communications satellite in Japan was refused market access on grounds of "excessive competition." Mr Stern says "excessive" in Japan has the same meaning as "real" competition in the US.

Resistance by Japan's telecom establishment toward new foreign competition is not monolithic. "Bloody turf wars" between officials at MITI and MPT have raged ever since 1985, US officials say. That was when the privatisation of NTT and steps to open the market aimed at both NTT and KDD went into effect to mark the start of telecom reform in Japan.

Mr Stern says MITI has relaxed its tendencies to regulate market access to foreign business. While senior management at NTT, Japan's largest company, is sincere as regards foreign procurement, junior level employees are often trained to favour domestic-made equipment and carry an innate bias against foreign procurement, he says.

Besides having overseas procurement offices in New York, Los Angeles, London and Geneva, NTT has also put on government seminars in 22 cities in five countries since 1985.

In the face of the trade imbalance companies seem more willing to use political pressure

NTT's overseas activities must be a refreshing counterpoint to the domestic scene, where the MPT is considering breaking up the company along the lines of AT&T of the US. In addition, new domestic Tokyo, Nippon Motorola has gained carte blanche to push its third-party radio communications service for parcel delivery up to a value of Y220bn, with production of radio communications equipment for mobile stations expected to show an average annual rate of increase of 10.3 per cent up to 1992.

In the wake of the June trade negotiations that focused on Motorola's telephone market access complaint, US officials say both sides remain somewhat dissatisfied. While a more open market will obviate the need for pressure tactics, one US government official says it is difficult politically: "If they dig their heels in on everything. We have to show resolve too."

"You always have to pay a price; you just hope you gain more than you lose," he says.

Chris Perry

China has less than one phone per 100 of its population.

CHINA

A giant market

CHINA'S highly inadequate telecommunications system, with less than one telephone per hundred of its population, is the largest stumbling block to its development. It has been targetted as one of the main areas by the Peking authorities in their ambitious economic reform programme which will carry China into the 21st century.

Expenditure on the modernisation of the telecommunications system between now and 2000 is likely to be more than $21bn, and this has drawn companies from all over the world looking for a slice of the action in this vast and relatively untapped market.

Like most other corporate dreams of China and its billion consumers, telecommunications companies are finding the going tough – the huge profits remain more imaginary than real.

Intense competition from Japanese, American and European companies has cut margins to the bone, with short term profits being sacrificed for long-term positioning in the market.

With many soft loan packages temporarily frozen by governments in protest at the crushing of the democracy movement, and China suffering from an acute foreign exchange shortage and general economic problems, the big pay off seems to be receding into the distance.

The political crisis has cast a shadow over international co-operation, says Michael Marray

However, the potential remains impossible to ignore. According to the Ministry of Posts and Telecommunications the plan is to reach 2.8 telephones per hundred head of population by 2000, from 0.75 per one hundred at present.

Even this seemingly modest target, compared to 50 or 60 per hundred in developed countries such as Japan, the US and European countries, will require a vast commitment of manpower and resources.

The overall national plan, which is being centrally co-ordinated by the ministry is to *link up the country's provincial* and municipal centres with a digitalised long distance switching and transmission network. Parallel with this, each provincial authority is responsible for investment in and development of its own systems internally, though nationally consistent overall specifications must be met.

Thus for many suppliers the big orders will be at the provincial level, both in the main switching network and the end terminal network. The main areas of development will be in the large cities near China's coastline, from Peking and Tianjin in the north, to Shanghai and down to Guangzhou in the south. Between 1978 and 1988 these four cities accounted for 25 per cent of *all investment* by the state telecommunications ministry, and have telephone densities way above the national average.

The building of private networks for important institutions such as banks is being encouraged, and a private network for the state railway system is being built. The national and provincial development plans will be pursued through a combination of old and new technologies, with copper wire, optical fibre, microwave transmission and satellites all playing their part.

According to Mr Graham Bacon, regional managing director of GEC Plessey Telecommunications Far East, equipment suppliers eyeing what is undoubtedly a huge potential market must accept the need to manufacture in China if they are to be successful.

Mr Bacon said that foreign participation was accepted as crucial by the Peking authorities – given the huge research and development costs involved in modern telecommunications, and because technology transfer plays a leading key role in winning business.

There are many joint venture factories in China producing telecommunications equipment, including one in Shanghai making optical cable which has been used to install the optical fibre communications system connecting the cities of Hefei and Wuhu Inanhui province.

Facsimile equipment is being produced. The fax is seen as having an important role to play as it is suited to transmitting Chinese script.

China is determined to press ahead with manufacturing for export, in order to generate much needed foreign exchange. This is also an incentive for the development of its international services. Most big hotels in the main cities offer international direct dialling, which is paid for in hard currency by visiting businessmen. But this service is not generally available, with long queues to book *international calls.*

All international calls, except those between Guangdong and Hong Kong, are routed through switching centres in Peking or Shanghai. Guangdong province has benefitted greatly from its proximity to Hong Kong, where Cable and Wireless has been keen to help build up the infrastructure in southern China so as to generate more calls to and from Hong Kong.

Cable and wireless is also a partner in the Asiasat communications satellite scheduled to be launched from China in April – though it may have to be launched from another country as a result of technology transfer sanctions against China on the part of the US.

Competition among foreign suppliers is intense

"We are constantly striving to expand the traffic capability of China using Hong Kong," said Mr Nathan Hsu, marketing manager at Cable and Wireless for China. He stressed the optical fibre cable system inaugurated last year between Hong Kong and several cities in Guangdong, which markedly increased traffic capacity.

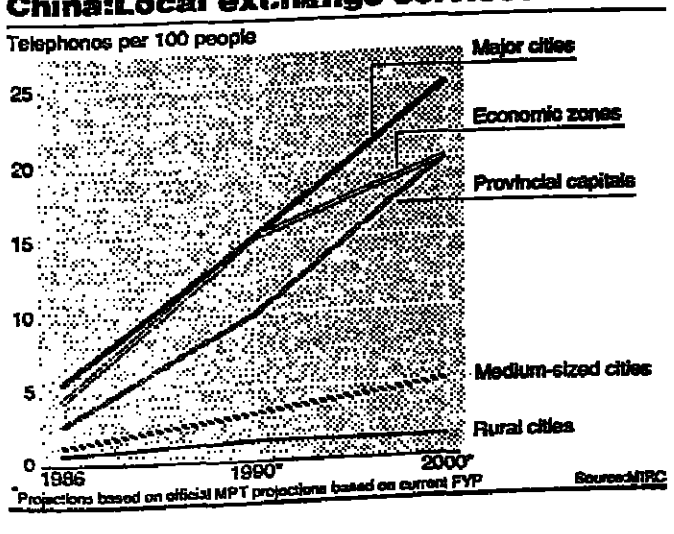
The link is used only to connect Hong Kong and Guangdong, though there is potential *for* Hong Kong to act as an extra channel for international calls out of China to the rest of the world, along with Peking and Shanghai.

Guangdong is at the front of mobile telephone systems in China, and along with Tianjin, Shanghai and Fujian provinces has adopted the total access communication system (tacs).

With the help of western technology, China is moving ahead on all fronts, and making fast progress in putting together an integrated digital communications system featuring voice, fax and data.

The political crisis has cast a shadow over this international co-operation, but businessmen believe that the effect will be temporary, and that within 12 months it will be back to business as usual, putting the worlds biggest telecommunications show back on the road.

China:Local exchange services



International suppliers want to exploit the ending of a monopoly, says **John Elliott**

Puzzle for Hong Kong

HONG KONG, which is renowned for its free-wheeling open market economy, has a problem in the field of telecommunications.

Should it follow this entrepreneurial ethic and open its telephone and allied services to competition?

Or should it bow to the parallel ethic of rewarding efficiency, and allow Hongkong Telephone to renew its 60-year-old monoply on domestic telephone voice services, which expires in 1995.

On balance, it seems likely that the British-influenced colonial government will follow the UK-led international liberalisation trend and decide some time next year that the monopoly should end in 1995.

But Hongkong Telephone – known locally as Telco – intends to mount a major defensive campaign when it *starts talks* with the government later this year.

In the meantime, interna*tional companies which would* like to exploit an ending of the monopoly – notably British Telecom and US West, one of America's baby Bells – have been staking their claims in advance by linking up with rival consortia bidding for Hong Kong's first cable television licenses.

The government is now in the process of awarding 15-year licences for what is expected to be the largest cable television system in the world, potentially covering 1.5m homes. But the licences have a much wider significance because the winner will lay a second duct network and will immediately *be allowed to offer* non-voice telecommunications services. The new network will then be in place for domestic voice transmission after 1995 if the Telco monopoly ends.

Telco is part of Hongkong Telecommunications which is 75 per cent owned by Cable and Wireless of the UK. It has had a monopoly on the colony's local voice network for over 60 years and has radically improved its operations since the 1970s when its quality of service was poor, with long customer waiting lists and considerable staff corruption.

Under a regulatory system negotiated with the government, which is known as the scheme of control, it does not charge for local calls. It says *that this leads* to a very high local calling rate which induces people to direct dial more profit-generating international calls than would otherwise be the case.

In 1987-88, there were 310m minutes of outgoing international calls, including 42m minutes of fax and data transmissions which was 92 per cent higher than the previous year.

These international calls are handled by Cable and Wireless (Telco receives a percentage) under a separate money-spinning monopoly agreed in 1981, which lasts till 2006, nine years after Hong Kong has reverted to Chinese sovereignty.

The scheme of control also imposes a profit ceiling of 16 per cent on shareholders funds. This *generates* Telco sufficient cash for extensive investment which this year will total HK$2.1bn – a high figure in relation to a HK$6bn book value of the network because obsolescent 1950s-vintage equipment is being progressively removed, with a target date of 1995 for the completion of a fully-digital system.

The current scheme of control ran out at the end of *last* year but was extended for 15 months, so it should be renegotiated soon.

This means that there are three imminent events which could change the regulatory face of Hong Kong's telecommunications. First, there is the cable television contract with its allied potential for immediate non-voice telecommunications services. Then there will be the renegotiation of the scheme of control.

At the same time the govern*ment will negotiate with Telco* about the new voice monopoly, probably using the new cable and non-voice licence holder as a stalking horse. The government estimates that 96 per cent of the phone market is catered for, which means that Hong Kong is saturated with what is generally accepted as a highly efficient telephone operation.

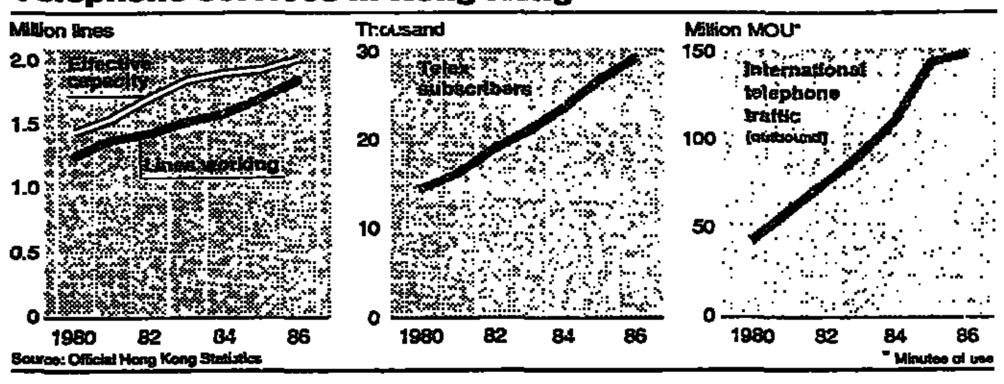
However, the government believes that there is considerable potential for developing a wide range of telecommunications services and that competition would help this to develop and cater for general growth.

The cable tv story started in 1984 when Telco suggested that it should carry the tv on its network. The government was interested, but competition soon emerged from Hutchison Whampoa, one of Hong Kong's four major Hong business empires controlled by Mr Li Ka-shing. Hutchison proposed laying a second network and this stimulated the government's interest in opening telecommunications up to competition.

Telco failed to persuade the government that, after some modifications, its existing optical fibre network could be used and that a second network was unnecessary. The government

Continued on page 16

Telephone services in Hong Kong



INTERNATIONAL TELECOMMUNICATIONS-16

It can take up to 20 years to get a telephone line in the USSR, says **Daniel Green**

Eastern Europe: desperate to modernise

EASTERN EUROPE is desperate to modernise its telecommunications. Its citizens wait a long time to get telephones connected: 5 per cent of Hungary's population is on the waiting list, and in the Soviet Union it can take up *to 20 years to get a line*, although four years is typical in Moscow.

The Comecon capitals are not short of ambitious plans to change this. Yearly spending on telecoms is forecast to rise from \$9.8bn in 1986 to \$22.7bn in 1995. By then, the eastern bloc will be the third largest market after western Europe and North America, in that order.

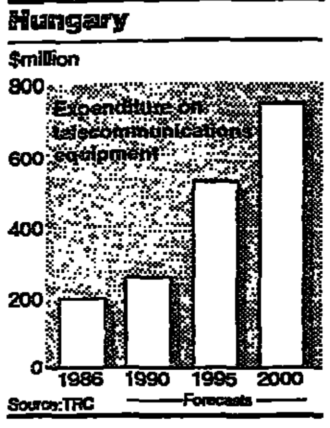
Comecon countries are gradually easing trade regulations, particularly on the establishment of *joint ventures. Attitudes* are changing too: western business executives with telecoms deals in their briefcases *speak of being welcomed* with "honest enthusiasm" and "open eagerness" by foreign trade ministries and *telecommunications authorities* (PTTs).

Familiar problems persist. Negotiators face months or years of talks with several levels of officialdom. There is a chronic shortage of hard currency, in many cases exacerbated by high levels of foreign debt and/or inflation. Counter trade is possible. But Pepsico of the US has sewn up Bulgarian wine exports, and would be exporters are likely to find themselves offered tobacco or scrap metal.

In spite of these obstacles, many western companies are penetrating deep into the virgin territory of the East. GPT, jointly owned by Plessey and GEC of the UK, has a joint venture in the USSR to make payphones; Australia's Bond Corporation has signed a letter of intent to set up the East's first public cellular mobile telephone network in Budapest; Canada's Northern Telecom, Sweden's Ericsson and Telenokia of Finland all have or are in the process of securing deals to supply central switches.

Hungary

$million



The need for international links has attracted *satellite* and fibre optic cable salesmen. Several countries are members of Inmarsat (the international satellite organisation, fees payable in dollars) and more are expected to follow.

Yearly spending on telecoms in the eastern bloc is likely to rise from \$9.8bn in 1986 to \$23.7bn in 1995

Last year it ran a roadshow throughout eastern Europe and reported keen interest and a high level of technical expertise.

"Czechoslovakia is less than five years behind the West in component manufacture and could be manufacturing the Inmarsat set Standard C link *within five years," says Mr* Rob Gallagher of Inmarsat. This talent is largely limited to satellite and radio communications. One observer estimates the time lag elsewhere to be about a decade.

The need for international links, has persuaded Moscow and a consortium of capitalist PTTs, including KDD of Japan, US West and British Telecom, to carried out a feasibility study into laying an optical fibre cable across Siberia to link Europe with north-east Asia. Calls are currently carried by satellite or a pre-computer age cable called Simewe running from Singapore, through the Middle East to western Europe. A decision on the trans-Siberian cable is expected by the end of 1989.

Projects such as these are expensive. There are three ways for the eastern bloc to cope: joint ventures, counter trade, and the keenly avoided hard currency payment. The first of these is flavour of the month for both sides. Although only the Soviet Union and Poland have officially embraced the joint venture, Hungary should follow shortly.

The problem remains of how the Western partner can extricate profits *from the arrangement*. This problem will remain until the rouble becomes a fully convertible currency, maybe before the end of the century. In GPT's case, the Moscow payphones will only make a connection if the caller pays in hard currency.

Attitude to joint ventures is not the only way in which Comecon countries differ from each other. There have been plans for a unified telecoms system for some years, but:

- Forecast rates of telecoms growth between 1990 and 1995 vary from 100 per cent in Hungary and Czechoslovakia to $3\frac{1}{2}$ per cent in Bulgaria.

The Soviet Union plans for an increase of $52\frac{1}{2}$ per cent.

□ Continued on page 17

Exports of telecomminications equipment to the USSR by leading suppliers (US\$ 000's)

	1986	1987
UK	339	178
France	3,463	6,218
Netherlands	—	31
West Germany	663	904
Italy	327	679
Austria	88	75
Switzerland	72	—
Finland	92,778	n/a
Sweden	144	65
Yugoslavia	32,8546	44,041
Japan	1,013	1,266

Exports of transmission equipment to the USSR by leading suppliers (US\$ 000's)

	1986	1987
UK	65	26
France	192	30
West Germany	284	219
Italy	—	85
Finland	23,445	n/a

Source: TRC

Terry Dodsworth examines links between equipment manufacturers and developing countries

More international collaboration urged

IN ONE respect, the world's telecommunications industry has an impressive history of international collaboration.

Despite the fact that operating companies are run nationally, and have generally been supplied by domestic equipment producers, the industry has from its inception been aware of the need for users to transcend national boundaries. A web of complex international agreements has been constructed to respond to this demand.

Yet telecommunications today is in some ways dividing the world today as much as helping to bring it together. The growth of telephone systems is running along twin tracks – or even diverging ones.

In the developed industrial world, telephone operating companies are spending heavily on a new generation of sophisticated digital equipment; yet at the same time, developing countries are struggling to achieve even a basic network.

This disparity in telephone services has a variety of consequences. It emphasises the North-South divide in the world's economy between the rich and the poor countries; it saps the ability of the developing world to attract advanced industries which depend upon effective telecommunications; it means that the vast bulk of the population in poor countries does not have easy access *to a telephone; and it limits the* ability of the poorer nations to climb out of their poverty through industrial growth.

The importance of telecommunications as an enabling factor in growth has frequently been emphasised. Indeed, some studies suggest that economic expansion is strangled at a certain point without an efficient telephone system; and good communications networks clearly disseminate information in a way that makes it more difficult to rig and control markets.

Because of the growing realisation of both the problems and opportunities, efforts to promote more telecommunications investment in the developing world have gathered force throughout the 1980s.

These initiatives, led by the

Some developing countries are struggling to achieve even basic telephone networks

World Bank and the International Telecommunication Union, the body which brings together telephone operating companies from around the world, led to the pace-setting report in 1984 prepared by a committee under Sir Donald Maitland, the former British Ambassador to the United Nations.

■ **DELIVERY BY DHOW:** when British Telecom had to ferry an entire telephone exchange to Lamu Island, off the west coast of Kenya, the only transport available (above) was an Arabian-style dhow. This modern exchange-in-miniature is the digital UXD 5, designed for rural communities and supplied as part of a £60m project to update Kenyan telecommunications.
■ **HELPING TO SAVE LIVES:** Following a plea by a doctor in a remote Kenyan hospital, a BT telephone exchange, right, is helping to lives where patients may have walked for days to reach medical care. Pictured with children is Ian Firkins, a business system manager from Cullompton, near Exeter, who helped instal the equipment at Chogoria Hospital. The exchange was donated by BT's Westward District - "it's a fair comment to say this new system will help save lives," commented a medical officer at Chogoria.
■ The world telecommunications network is one of the great human achievements – it serves, for example, 600m telephones and has combined yearly revenues of around \$250bn. There is, however, immense disparity in the extent of telecom services between industrialised countries and the developing world. Over half the world's population live in countries with fewer than 10m telephones between them – and two-thirds of the world population still has no access to telephone services, while Tokyo has more telephones than the whole of the African continent.

This pointed out that of the 600m telephones in the world, three quarters were concentrated in nine countries. It made a series of recommendations, including efforts to establish telecommunications as a priority investment in developing countries, and new methods of funding expenditure.

Last month, the Maitland report led to a new initiative at the ITU, when a specialised unit was set up with a budget of SFr15m a year to help support telecommunications in developing countries. This new Telecommunications Development Bureau will have its own permanent staff to help developing countries on technical and managerial issues.

A more controversial proposal to split revenues from international calls disproportionately in a way that would redistribute funds from the developed to developing countries has so far been rejected by the ITU.

It is still under consideration as a means of giving poorer countries funds for investment. But it is likely to continue to attract strong opposition from the richer industrialised countries: they have doubts about these means of extending aid, and the efficiency with which money is spent in the operating companies in the developing world.

Combining with this opposition to straightforward aid through the ITU, there is a growing body of opinion in support of a different approach to stimulating growth in the developing countries.

In a view which is increasingly echoed by the World Bank, Sir Donald says that developing countries should do more to encourage collaboration that will bring in outside capital to their telecommunications industries.

"There is no reason why these countries should not be able to raise funds through joint ventures," he says. "The reason is that the moment one puts a telephone in, it begins to earn money. Telecommunications is inherently profitable."

The response to these new policies and ideas over the next few years is likely to be patchy. Indeed, the history of the last decade or so shows the variety of different approaches to development that are available in telecommunications. They include:

■ Aggressive expenditure on new switches and infrastructure to push through a crash expansion programme, as in some of the newly industrialised countries (NICs) and the East Asia.

Countries such as Singapore and Hong Kong have eschewed manufacturing for themselves, taken advantage of a buyers' market for switching systems, and driven hard bargains with Japanese suppliers for low priced products.

The NICs have had an advantage over many other developing countries in that they are small, and are therefore able to install their systems relatively quickly; at the same time, they have had more funds available for expenditure because of their growing manufacturing strength.

■ The establishment of a domestic manufacturing industry through joint venture agreements with European, Japanese and American equipment manufacturers.

Mexico, for example, has followed this policy with a deal with Alcatel of France. The idea here is to produce overseas-designed equipment locally and thus preserve foreign exchange.

■ A third approach is to try and design a new range of equipment for the local network based on indigenous technology. India currently has ambitious plans of this kind, having already developed a successful range of domestic telephone exchanges.

It is now aiming to invest in production of a new public exchange, called the C-DOT, entirely designed by Indian engineers and software specialists. The idea is that this should be simpler and cheaper to make than modern Western Exchanges, and would therefore be more appropriate to the rapid extension of the telephone system throughout rural India.

■ The development of an indigenous manufacturing sector based on foreign investment but strongly geared *to* exports as well as domestic consumption.

Brazil falls into this category, with collaborative agreements with several European and Japanese switch producers; products from these joint ventures are exported to other South American countries and to Africa, taking advantage of the low manufacturing costs in Brazil.

These different strategies allocate resources in various ways between manufacturing and services.

Overall, however, there is a tendency among the larger countries in the developing world to try and develop equipment production activities as well as expanding their telephone network services.

One reason for this is that telecommunications is seen as a high technology industry that will help general technological development; another is to provide employment; and some countries also argue that domestic manufacturing is essential because of the scarcity of foreign exchange and the high cost of foreign equipment.

Some economists argue, however, that this intense interest in manufacturing in many countries is misguided. Scarce resources would be best used, they contend, in strengthening telephone networks to give a boost to the entire industrial and commercial infrastructure.

One point here is that the resources needed for telecommunications development, whether on the manufacturing or the services side, are equally limited in developing countries.

For the foreseeable future, both technologists and managers, the two essential ingredients for growth, are in short supply, and sufficient training is not yet available to fill the gap: spreading funding and personnel still further between two fields of activity reduces their impact even more.

Several developing countries are beginning to move in the direction of putting more emphasis on the services side. Some are even doing it on a joint venture basis – the telephone companies in both Spain and Portugal, for example, have been active in South America; and Cable and Wireless, the UK group, runs the telephone systems in many countries that used to belong to the British Empire.

To extract the full effect out of these investments, however, many experts say that developing countries must alter their attitudes to the telephone operating companies and tighten up management.

The network groups are frequently used as cash cows with funds to be drained off for other central Government activity; and they also supply employment for armies of public sector workers.

Economic expansion is strangled at a certain point without an efficient telephone system

"There is a problem," says one consultant, "in persuading Western countries and companies to participate in projects in developing countries when they suspect that a great deal of the funds will go towards maintaining a high level of feather-bedding among employees."

Costly connection

IRAN is the mostly costly country in the world in which to have a private phone installed, according to a report from Siemens, the telecommunications group.

The Iranian installation fee is ten times higher than in the UK and 17 times the cost in the US, But Iran's rate for three-minute local calls is relatively cheap: a quarter of the cost of the UK figure and twice the average US rate.

Hong Kong puzzle

Continued from page 15

was attracted by the second network because it gave the option for introducing telecommunications competition.

Eventually, after a period of considerable indecision, the government last year invited cable tv bids and effectively ruled Telco out of the race by decreeing that it could only have a 15 per cent stake in a cable consortium.

This left Hutchison as the only viable contender for the cable tv business. The government then went to great *lengths to attract other bid*ders, if only to provide token competition.

This led to three rivals emerging, the only viable one being Hong Kong Cable Communications, which has proved a *much tougher competitor* than had been expected. It includes US West and has was put together by Wharf Holdings, *controlled* by Sir Y.K.Pao, a major rival of Mr Li Ka-shing.

Hutchison CableVision includes British Telecom, Cable and Wireless's arch rival for international contracts, with a 24 per cent stake, and AT&T of the US as an advisor. Also in the group is Hutchison Telecom, which operates cellular and paging telephone services and wants to grow into a major Hong Kong-based Asia-Pacific telecommunications company with European links.

So, with the awarding of the cable tv licence, the scene is being set for competition to begin in Hong Kong's telecommunications, initially only for non-voice services but then maybe for domestic voice as well in 1995.

That would then leave the plum of international telecommunications as a monopoly in the hands of the old colonial-based Cable and Wireless till 2006.

Kevin Townsend looks at the dynamic advances in facsimile transmission

The fax phenomenon continues

FROM ALMOST nothing just a few years ago, the facsimile machine has become one of the most dynamic areas in the office market.

The basic reason is simple: fax is easy to use. Unlike the alternative messaging systems (electronic-mail or E-mail and telex), it doesn't require any specialist training — and it also has one specific advantage. Fax can transmit drawings and diagrams, as well as text.

In concept it is very simple: little more than a scanner, a modem, a printer (usually thermal), and the controlling software to make it do as it is told.

The scanner "reads" the contents of a document, the software converts it to fax format, and the modem transmits it to a distant system that reconverts the signals and produces hard copy via the built-in printer.

It is the additions to this basis, the go-faster stripes and "the bells and whistles," that differentiates one system from another. For example, many of the newer systems now include a built-in telephone handset, and the ability to store, in some cases, up to 100 or more destination telephone numbers for single-touch autodialling.

Automatic timed control, and software-controlled selection can pick up different documents from an automatic document feeder (ADF) and send them to different addresses overnight — and at cheap telephone rates.

Another new development is the introduction of smaller and sometimes portable fax units — the theory being that every desk should have its own personal scanning fax unit.

Indeed, the Japanese heartland of the fax unit is already well on its way to achieving this.

However, despite the size and dynamic nature of the fax market, it is unlikely to survive in its current form. The primary threat to the stand-alone — shall we say "scanning" — fax machine has come in the form of the ubiquitous PC board.

The PC fax is effectively a fax unit on a card that slots into the back of a PC, and allows any text held on the PC to be transmitted and printed out at any "scanning" fax machine attached to the international telephone network.

What it does not have is the ability to scan in new original graphics. After a number of false starts, the PC fax is now becoming more useful, and a greater threat to stand-alone scanning systems.

There are both advantages and disadvantages to the fax board. However, its original market failure was due to a greater understanding of the disadvantages than of the benefits.

It was, for example, initially perceived as a cheap alternative to the scanning fax unit — but one that could only transmit text. But there are many more desktop PCs than stand-alone fax systems; that is, there is a greater market for PC-to-PC than PC-to-fax. This means that the fax board is competing more with E-mail than with traditional fax, and E-mail is cheaper and faster than fax.

The fax is very simple: little more than a scanner, a modem and a printer

This inability to transmit graphics stopped the fax board market in its tracks. But now things are different. Comwave, for example, includes new file format conversion routines on its top-of-the-range fax board. The most significant is a PostScript driver.

Now the relevance of this is that PostScript is the rapidly emerging industry standard page description language. It is used to produce the mixture of text styles and graphics that lies at the heart of most modern desktop publishing packages — and nearly all of the latest word processors, graphics, spreadsheets and databases also include a PostScript driver.

It follows, then, that with such a fax board anything that can be produced by an application package that has its own PostScript driver, regardless of the typeface style or size and irrespective of the degree of graphics, can be sent to a remote scanning fax system for printout.

The methodology is simple. A software application is used to generate an Ascii PostScript *file on disk. The fax board conversion* routine then converts this file to fax format and transmits it to the remote system.

"The implications are quite enormous," comments a market analyst. First of all, the quality received at the destination fax is superior to standard scanning fax since no imperfections can be acquired at the scanning stage, and no paper blemishes are included from the original sheet.

Mr Ed Martin, Comwave's product manager, believes that the inclusion of a fax board within the personal workstation of relevant users is a more cost-effective solution than the traditional central scanning fax station.

"No more queuing, waiting, not knowing if that urgent fax has gone or not, whether it was received clearly or if several pages went through at once and it needs to be re-sent . . ."

But the fax board has to be used intelligently. For example, its most obvious use is from local fax board to remote scanning fax station.

Although it can be used to send from board to board, this is in many cases irrelevant. If you need to send a message or file from one computer to another, then simple file transfer would be cheaper and more effective.

"I see fax, whether fax board or scanning fax," says Mr Martin, "as ideally suited to inter-company messaging. E-mail and file transfer is better suited to intra-company messaging."

But the fax board really comes into its own wherever copies need to be sent to multiple different destinations.

Because the operation of the board is software-controlled, it can be programmed to perform wide-ranging functions. For example, consider the need to get up-to-the-minute information, in a presentable form, to geographically dispersed clients.

This could be anything from an accountant's analysis of the market, through latest prices and stock availability from head office, to a daily specialist news bulletin.

Traditional mail would take too long and is becoming increasingly unreliable; E-mail would require at least compatible software; and scanning fax would probably require a dedicated operator sending at peak rates.

The fax board, however, could be programmed to send personalised copies to individual clients automatically and at cheap telephone rates.

But the fax board must never become too successful at the expense of traditional fax.

"I don't see us as competing with scanning fax," says Mr Martin. "I see the fax board and the scanning fax as complementary, existing side by side."

This is not surprising since although the board can be seen as a competitor to the scanner, it cannot really exist without scanning fax destinations. There is a danger that too much success will only limit further growth.

Eastern European projects

Continued from page 16

● Areas earmarked for growth differ: transmission is a priority for all except Bulgaria, satellite ground stations for all except Bulgaria, East Germany and Hungary and private exchanges (PABXs) for all except Bulgaria and Poland.

● Some countries are easier to do business with. Apart from joint venture regulations, western executives express a preference for Poland, Hungary, Bulgaria and Romania "because they have a history of entrepreneurship," and some complain that the Soviets find it hard to understand aspects of the business deal such as debt servicing.

Such factors may be outweighed by political obstacles which have led Telecommunication Research Centre to say: "Serious questions must be asked about the wisdom of trying to break into the Romanian telecommunications market."

Yugoslavia is another singled out as risky because of its crumbling economy and civil strife, although this spring, Siemens of West Germany established a joint venture there to make its EWSD digital exchanges.

The Soviet Union has led the way in the relaxation of joint venture rules. In October 1988 Moscow proposed to raise the maximum foreign holdings in a joint venture to 80 per cent from 49 per cent.

By virtue of its sheer size, the Soviet Union is the honeypot of the East. It needs 100m telephones installed by 2000. According to Mr John Murphy, of City solicitors Theodore Goddard, joint ventures will be hard pressed to meet domestic demand in the Soviet Union, let alone be able to spare capacity for exports.

The TRC is blunter, saying that *Soviet* industry does not have the capacity to produce the 4.7m telephones a year required.

Nevertheless, the vast domestic demand for all telecoms products overshadows the combined potential of

Comecon countries are easing trade regulations on joint ventures

domestic and export markets available to plants in the satellite nations, not least because those exports that arise will largely be within Comecon.

The size and inhospitable climate in large parts of the USSR contribute both to the need for efficient telecoms and the difficulties of implementing it. The plan is to bypass some of these problems by mixing satellite and microwave links with more conventional copper and optical fibre cabling.

This approach has been recommended for China too, where, so the theory goes, vast distances can be conquered by microwave, especially with the frequency sharing technology of cellular technology.

Both exports and joint ventures are subject to the tortuous regulation of Cocom, which authorises the transfer or otherwise of high technology to communist countries.

However, in the four-yearly review of Cocom listings of September 1988, many classes of telecoms product were taken off the prohibited list.

The net effect was that the regulations were liberalised in respect of transmission equipment, radio relays, optical fibres (although some restrictions still apply) and stored program control switching.

Changes in the fax equipment market

Purchasers become more demanding

HOW LONG will it take for the word "fax" to enter the hallowed columns of the Oxford English Dictionary? In theory, it ought not to be long, because over the past two or three years, as the number of facsimile machines in use in Britain has soared to well over 400,000, and the word "fax" has well and truly entered the language.

At the same time, buyers are getting more discerning — no longer are they buying "any old machine as long as it's *cheap*" — *as insurance against* another postal strike, or even a rail strike. A growing proportion of high-end machines are now being purchased as users, probably with a better understanding, seek more features.

According to Mr Lester Davis, chairman of the British Facsimile Industry Consultative Committee, (BFICC): "There has been a significant trend towards sales of fax machines with features that offer greater flexibility and improved efficiency. These include larger paper rolls, automatic distribution to more than one destination and capacity for documents larger than A4.

"Users have also become more demanding in their fax requirements. They are now buying machines which provide simplified user operation, reduce the time spent queueing at machines to load documents and which provide quicker transmission time between machines," he says.

With over 400,000 Group 3 (sub-one-minute transmission time) machines in use, companies "clearly recognise that facsimile is an essential way to communicate, and that with a wide range of machines available, no-one should deny themselves the benefits that fax will bring to their organisation," he adds.

The bottom-of-the-line manual machines and those without guillotines to cut the paper may be suitable for the very occasional home use, but do not merit consideration for serious use. After all, who is prepared to waste time cutting six feet or more of a message into individual pages?

Even worse, with a manual machine, the user dials on an associated phone the number of the remote fax machine, then waits for the machine to answer before pressing a button on the machine to initiate transmission, and putting the phone down. As the amount of fax traffic is increasing, machines are frequently busy — this means redialling until it gets through.

Even when machines carry autodial and other sophisticated features, they are often so user-unfriendly that the features are under-used. As a result, the casual user is unable to use the machines except for the most basic functions.

A growing proportion of high-end machines are now being purchased because users, probably with a better understanding, seek more features

Furthermore, even the skilled and regular operator may need to refer to the manual each time of use — especially when the feature concerned has to be reprogrammed. This will often apply to "delayed send" procedures aimed at taking advantage of cheap evening telephone tariffs.

It must be open to question whether there is any point in having features which are claimed to save time or money if they are too complicated for people to use. After all, unlike telex which demanded a dedicated operator, fax machines may be used in an office by a wide range of staff — and especially so in an open plan environment.

The reality of the marketplace is that margins are being eroded as the growing number of vendors — and dealers who have been discounting heavily to get sales at any price — has generated increasingly intense competition.

Is this good news for the customer? The answer must be yes — until he gets (or appears to have) problems with a machine.

Even comparatively large organisations often only have one fax machine. In the event of any failure they are then out of action until the defect is rectified. However, it is quite possible that many of these problems result not from machine failure but from users not being able to use the machine properly.

This is brought home by Mr Gerry Tull, Konica's fax manager who says that its Facsimile Centre is able to resolve about 85 per cent of customer problems over the phone.

This is a key indicator to the direction that will be taken with future fax machines. As well as additional features, *such as the latest CCITT (the* international telecommunications standards body) error detection and correction standard, the main improvements in machines will be aimed at easing use. Instead of cryptic messages, or even no information at all, which sends the user scurrying for the handbook, user-friendliness is becoming an important component in the design of machines.

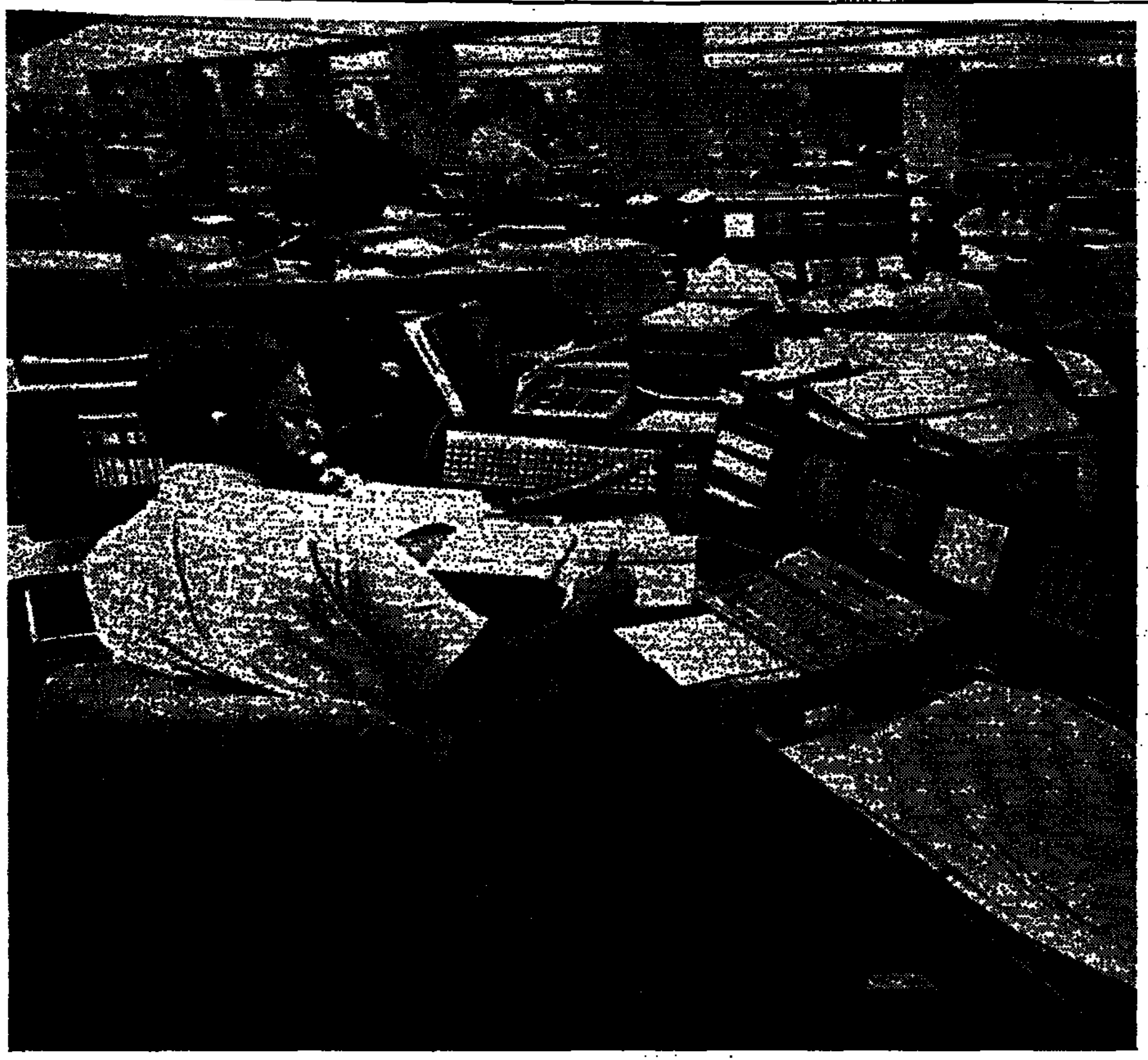
For example, the trend will be to larger liquid crystal display panels, with information presented in such a manner as to guide the user through the necessary steps to program a machine in an intuitive manner.

Following market research on machine use, Konica is introducing a system which allows the machine to read and automatically act upon required transmission criteria (such as fine resolution, low contrast and so on). The information is marked on a special cover sheet that accompanies the message. Where computer print-outs are sent which need special attention, the same cover sheet can be used each time and consistent results assured.

One of the ways that fax has increased the tempo of business is that hand written messages are quite acceptable — no longer is it vital that the most minor memo be beautifully typed.

This time-saving opportunity will have come to nought if the writer of a memo cannot work out how to use the fax to send it. Any premium price one has to pay for more user-friendly machines will be more than repaid by savings in time and money during their lifetime.

Adrian Morant



Dealers and brokers benefit from electronic mail by gaining the edge in matching buyers to sellers, irrespective of location

Changes in electronic mail systems

Need for compatibility in a more sophisticated network

ELECTRONIC mail systems, such as Telecom Gold and Mercury Link 7500, are the telecommunications equivalent of Post Office boxes in the UK.

A user of, say, Gold is able to send a message from his desktop computer into the Telecom Gold computer. It can then be retrieved by a second user who may be in a distant part of the country or even another part of the world. It only needs his personal computer (pc) and telephone access.

This is possible because each subscriber to a system has a unique address, his mailbox number. The central computer of the system contains a series of electronic mailboxes. Users dial into that computer and, after giving a password; are allowed to access any mail waiting for attention. As well as being comparatively simple to do, it means using the pc and keyboard with which the user is familiar.

At present the only universal E-mail system is telex which has over 2m users worldwide. However, even though telex messages have legal status, there are inconveniences caused by the restricted alphabet of upper case letters.

Furthermore, the machines are frequently in the post room and, as outgoing messages have to be keyed in and incoming ones delivered to the ultimate recipient, they often do not form part of the "real-time" business.

The compatibility problem may be resolved as a growing number of these E-mail systems adopt the internationally agreed X400 standards

While some of these problems have been overcome by companies using telex message switches, it is a bit like modernising a manual typewriter.

The proliferation of pcs, the recognition that telex is rather cumbersome, the unsatisfactory postal service, and the increasing tempo of business are all reasons underlying the growing use of E-mail. However, while there are growing numbers of users, they use a number of incompatible systems. This problem will, to some extent, be resolved as a growing number of these E-mail systems adopt the internationally agreed X400 standards for message handling.

While the aim of the E-mail facility remains the transportation of memos around an organisation this is adequate. However, the whole concept of electronic mail is evolving away from just the provision of a rapid person-to-person text messaging service which is independent of that person's location.

It is moving towards being a strategic resource involving the connectivity of more complex data between applications using industry standards rather than the use of incompatible proprietary protocols.

However, the widespread adoption of X400 will not be enough. As any network gets more sophisticated and more heavily used the requirements and expectations for the whole will exceed that of the sum of the parts.

This is especially true if it expands to link what were previously separate "islands" which evolved in a piecemeal manner just to meet individual local goals.

Often E-mail will have been provided as an application on the host computers at the various locations with intersite communications being handled via one of the public E-mail services.

According to Mr Alan Wallman, managing director of Key Exchange, a leading European supplier of information interchange systems: "Businesses now recognise that they need a corporate network approach to electronic mail which addresses the important issues of connectivity, management and mail-based applications."

He points out that Open Systems standards do not provide the complete solution, nor do they have universal implementation by suppliers.

The effect is a set of information bottlenecks that reduce the benefits of IT systems.

Consequently, the Key Exchange approach is to supply a set of tools to allow users to communicate across these barriers irrespective of whether they are the established proprietary protocols or the new OSI standards.

The company claims to hold a unique position in the IT marketplace as the leading European supplier of solutions to large organisations with incompatible E-mail and document processing systems. Shortly after it was founded in 1986, it broadened its product portfolio by acquiring a controlling interest in the UK subsidiary of the US-based Soft-Switch.

Key Exchange is responsible for the European end of Chase Manhattan Bank's worldwide network upgrade in which it is investing about $500,000 with Soft-Switch.

This is an example of the real world. Its three main centres are in New York, London and Hong Kong and it has an installed base of IBM, DEC and Wang machines. Over the years a number of proprietary messaging systems have been implemented.

These include IBM's PROFS, DISOSS, and AS/400; DEC's All-in-1 and VMS Mail; Wang's Office and MailWay; Banyan's Mail; and Network Courier Mail. The continued operation of this network is vital to the operation of the bank.

The bank has been installing over the past two years a Soft-Switch network to link all its dealers and brokers and the rest of the 20,000 electronic messaging users.

The result being that, without users having to learn new incantations, messages are

Businesses recognise the need for a corporate approach which addresses issues of connectivity, management and mail-based applications

transmitted across the world between alien E-mail systems without delay. This gives the bank the competitive edge in matching buyers to sellers, virtually irrespective of where they are located.

As part of its strategy to enhance its communications the bank has added a gateway in the US to the MCI International messaging services as well as being a "beta" test site for Soft-Switch's X400 electronic mail products which will provide Open Access. This enables it to provide direct E-mail access with customers and so enhance its response time still further.

Nowhere is communications more critical than with the financial community where a failure could leave a dealer dangerously exposed.

The issues are complex. When a network is being planned to embrace an entire organisation there is frequently the problem that it is not a "green field" situation.

The company often has a large investment in an IBM SNA network which has evolved to provide a high level of reliability and availability. In a view commonly propounded within industry, the organisation should rapidly migrate to international OSI (Open Systems Interconnect) systems.

Those who have operational responsibility, seek a more evolutionary, and less traumatic, approach for both users and the system – especially as they are in the firing line if the system goes down.

Adrian Morant

Advances in Electronic Data Interchange (EDI)

Charting the progress of paperless trading

IT HAS become accepted that the "paperless office" has not become a reality because it was a dream, based on false assumptions. But "paperless trading," known as electronic data interchange (EDI) is fast gaining ground as an accepted way of doing business.

EDI is used to replace paper-based orders, invoices, freight and forward notices, and Customs documentation with networked computer-based systems.

Savings are derived through reduced paperwork, less manpower, and most significantly, a reduction in error – due to once-only keying-in of basic information.

According to a Yankee Group report, over 70 per cent of European EDI activity is based in Britain which has over 2,500 companies involved.

It predicts that EDI will grow at a rate of 30 per cent for the next five years. The US, meanwhile, has by far the largest base, with over 7,000 users.

Typically, EDI networks have been developed within specific market areas:

- ☐ Retailing.
- ☐ Automotive industry.
- ☐ Shipping.
- ☐ Insurance.
- ☐ Pharmaceuticals.

British Coal is an EDI pioneer. It started a pilot project in 1982, linking 12 of its leading mining machinery manufacturers, to exchange orders, invoices, lead-time prices and listings of critical spares.

The pilot project was deemed to have worked so well that the system was extended to operate via a clearing house and now links 149 users.

Mr Bill Bedford, head of purchasing and supplies, says that the network has met the need for greater accuracy and cost-cutting – "it has been highly successful and now we are able to order stock later, hold less stock, and save on administration overheads," he says.

British Coal's EDI network processes 32 per cent of its purchase orders (192,00) and 12 per cent of its invoices (210,60), each year. It expects this to increase to 50 per cent and 25 per cent respectively by the end of the year.

"It'll grow exponentially," says Mr Bedford, who is an unashamed EDI enthusiast and campaigner.

The European Community sees EDI as central to the concept of a united Europe. It has calculated that savings through EDI can be as much as per cent of a member-country's gross domestic product.

In 1988, it launched the TEDIS programme which is designed to co-ordinate EDI groups in different industry sectors, and to promote awareness and stimulate demand.

The United Kingdom has become something of an EDI trail-blazer due to liberalisation of its telecommunications and the ease with which value-added network suppliers can be set up

The EC is concerned that small to medium-sized companies do not miss out on the opportunities available.

In a bid to extend the availability of EDI, it has commissioned Price Waterhouse management consultancy to undertake a study of the benefits of EDI to such companies.

EC funding will be made available for equipment and service costs for three or four companies in three different market sectors.

"The aim is to stimulate small to medium-sized enterprises to act more pro-actively, using EDI competitively and encouraging customers to do the same," says Price Waterhouse partner, Mr Glen Peters.

The UK has become something of an EDI trail-blazer due to liberalisation of its telecommunications and the ease with which value-added network suppliers (the companies acting as central bureaux for the EDI networks) can set up.

But the rest of Europe is beginning to catch up. In France, for example, the national datacomms network operator, Transpac, is seeking to be a major player in the European EDI arena.

Transpac will be the project manager of a national EDI network called TEDECO, which will link 2,000 of the country's largest towns and cities with the Finance Ministry. The project if successful, will be one of Europe's largest EDI networks with 50 cities linked by the end of this year, generating an income of $3.8m per year.

US-based Electronic Data Systems (EDS) is planning what could become the world's largest EDI networks. The system will link seven European countries, while up to 2,000 companies have been commissioned by EDS's parent company, General Motors, to take part, linking suppliers to manufacturing plants.

Due for completion within two years, the project will be jointly run with Geisco, Transpac, and Istel, which already claims to have the largest customer base in Britain.

Further afield, there are numerous embryonic EDI projects being developed. In Australia, for example, the current focus is on using EDI to handle importing and exporting details. The network, called Tradegate Australia, is expected to link 8,500 terminals within five years.

In the Soviet Union, the first EDI project is under way. Based in Leningrad, it will be used initially for military communications and cargo shipments – and later for messages between ports and railways.

As more companies seek the benefits that EDI can bring, there is growing belief that its use is of major importance.

Consultants point to a number of areas which it directlyaffects:

- ☐ Just-in-time manufacturing systems.
- ☐ More efficient distribution.
- ☐ Organisational changes.
- ☐ Redistribution of labour.
- ☐ "Competitive-edge" technology areas.

The leading computing manufacturers recognise the obvious potential for selling hardware on the EDI "ticket" and are active in a variety of ways ranging from assisting on standards groups to providing the EDI networks themselves.

Digital Equipment Corporation is focusing on the problem of providing gateways that link competing EDI networks.

IBM's EDI network has captured ten per cent of the UK market. The company hopes to gain customers by example as much as anything else. It is installing EDI in-house and expects to be trading electronically with 12,000 of its largest suppliers by 1991.

IBM says that the result of a recent direct EDI-link with Texas Instruments, its productivity gains of 117%, with inventory turnover, increased by 33 per cent in three years and lead-time down by more than 30 per cent on more than a quarter of "high value" parts.

Now IBM says it wants 50 per cent of its business to be carried out electronically by 1992.

But despite a wide range of activity, even in the UK, less than one per cent of all business transactions are being done via EDI at the moment.

Over the next few years the industry faces the difficult problem of uniting activity based on a number of different messaging standards.

There is considerable momentum behind the worldwide EDIFACT standard which, according to Istel's marketing director, Mr Phil Coathup, "will be the assumed way of doing things in five years' time."

EDIFACT is endorsed by the Commission for European Communities and the European Free Trade Association.

Others believe that X.400, an emerging message-handling standard, could be the universal EDI umbrella that will give greater ease of use and interconnection.

Whichever way the standards-issue is resolved, the next few years will see EDI begin to break away from niche market development and, with increasing numbers of active participants, its strategic importance will grow further.

Kenneth Young

Laying and cutting cables on the sea bed

■ Alan Law, above, chief cable engineer on board the Cable and Wireless ship, "Sir Eric Sharp", pictured on deck with the submersible equipment which is used to lay and cut telecommunication cables on the sea bed.

■ In the control room, right, Peter Minns, operates the highly-sensitive manipulator system, guided by television pictures. Each movement he makes on the controls is reproduced on the sea bed by the arms on the submersible equipment.

Pictures by Tony Andrews

Adrian Morant charts the rapid increase in world telephone traffic

More powerful exchanges to meet peak demand

WITH THE telephone assuming a position of even greater importance as the tempo of business increases, how will the telephone exchanges be able to cope? For example, British Telecom reported that last year there were 11 and 13 per cent growths in inland and international calls respectively.

Not only must the telephone companies ensure that exchanges can cope with the increasing demands from users, they have to bring their systems into the modern digital era for ISDN and Intelligent Network services.

To meet these demands the telecommunications manufacturers are designing more powerful exchanges. GPT (GEC Plessey Telecommunications) last month claimed a world record — which will be submitted for inclusion in the Guinness Book of Records — when a System X carried 1.5m "busy-hour call attempts" (BHCA) or 415 call attempts per second.

GPT last month claimed a world record — which will be submitted for inclusion in the Guinness Book of Records

But what does that mean, and why is it of interest to the customer?

One of the major measures of the performance of a telephone exchange is the number of call attempts that it can handle in one hour. In the same way that road traffic fluctuates during the day, so does telephone traffic. In both cases, the system must be designed to accommodate the peak demand i.e. the traffic in the "busy hour" — hence, the capacity of a telephone exchange is measured in BHCA figures.

It is very difficult to visualise the load on a switch, or even to put it into understandable terms. Current generation digital switches can typically handle 500,000 BHCA with only one or two types having a claimed capability to handle a million BHCA.

A number of busy nodes carry around 350,000 BHCA on a regular basis in city centre type local applications and as trunk exchanges in the long distance network. Consequently, it may appear as if GPT is just advertising a 200MPH sports car with go-faster stripes for use where there is a 70 MPH speed limit.

This is not the case in view of the sudden and unexpected loads that can be imposed on a network by a disaster (as apart from, say, telephone voting by TV viewers of programmes such as "Opportunity Knocks" or "New Faces" which are sudden surges — but at least they are anticipated). But, irrespective of the cause, the network must withstand the heaviest loads.

However, according to Mr John Ziemniak, GPT director of engineering and business centres, the real benefit of processing power will become evident as the telecoms services industry takes off in the 1990s.

As supply of telephony services is deregulated, then more and more suppliers will enter the market with differentiated products. He cites the fact that there were over 6bn 0800-type calls in the US in 1987.

System X is of a modular design, based around a number of "clusters," which can be increased to accommodate higher traffic demands. This multi-cluster approach enables the processor to be enhanced from one to eight clusters without any hardware replacement. Each one caters for around 250,000 BHCA. Thus, a machine can be assembled having the required amount of processing power.

The demonstration carried out last month was on a six-cluster System X exchange, i.e. a capacity of 1,500,000 BHCA, at the GPT site at Nottingham. However, in view of the fact that this amount of "real" traffic is not available, special traffic simulators were used to generate pseudo-traffic. (In due course, an 8-cluster 2m BHCA system can be expected.)

Even without the move towards the advanced services, there are two reasons why increased processor throughput is needed; the increased demand for telephone services of all types, and a reduction in the average holding-time of each call.

Prior to the introduction of the new generation of equipment, a significant proportion of the total call time was spent setting up the call. With digital telephones, there will not be the time taken by pulse dialling and the call is set up instantly.

As we move towards intelligent networks, the amount of processing power required per call will continue to increase

Additionally, the data transmission rates used within the network are increasing. Thus the call duration needed to transmit a given amount of data is reduced.

This will be taken to the limit with applications such as credit card validation. Here, the card will be "wiped" through the reader which will automatically dial through to the card company where a computer will instantly check whether or not the card is "good".

Similarly, the entire call to send an A4 page via a high speed Group 4 digital facsimile will only take about five seconds.

Today's digital telephone exchanges can also provide Centrex service. This obviates the need for a company to have its own PABX as all the facilities are provided by the telephone exchange. This is space saving and gives the company great flexibility in catering for changing needs. These additional facilities place an extra load on the processor.

At present, multi-sited companies frequently have private networks with leased lines linking their establishments in different parts of the country.

These leased lines are expensive. Consequently, the concept of the virtually private network is attractive because it enables the use of leased lines to be shared and so maximises their utilisation to the benefit of both supplier and user.

As we move towards Intelligent Networks (IN), the amount of processing power required per call will continue to increase. The IN of the future will provide a wide range of features including wide area Centrex (spanning a number of sites); multimedia services to facilitate the integration of voice, text, graphic and even video information; and personal communications services.

These latter facilities customise the subscriber's interface with the network to allow, for example, the retention of the same telephone number even when one changes geographic location, or "name dialling" whereby the subscriber places a call by speaking or typing a name rather than dialling a telephone number.

Only manufacturers who can demonstrate large amounts of processor power can be relied upon to provide the network operators — who will be operating in an increasingly competitive environment — with a future-proof system to meet these emerging market requirements.

This control centre, recently opened in London, has the world's most advanced facilities for pinpointing potential trouble spots and taking swift action before service to customers becomes affected, claims British Telecom. Maps and other displays give staff sitting at consoles a continuously updated picture of the state of the network, showing the flow of calls through it. On adjacent screens, TV programmes are continuously monitored to check for phone numbers flashed on to screens.

Case study: developments in Hull

City's digital network offers cheapest calls in UK

A TELEPHONE in Hull, in the north east of England, looks no different from any other telephone, but behind the scenes is one of Europe's most advanced digital telephone exchanges.

Local, national and international calls are handled by the city's System X network, the first installed in the UK, in 1984, 80 years after the opening of Hull's earliest exchange.

Hull was one of 13 local authorities in 1902 to obtain a license to operate its own telephone service. Only six actually started a service and Kingston Communications is now the country's sole surviving independent PTO. Though recently made a plc, the city council remains its only shareholder.

The company has so far invested over £28m on the modernisation of the network, serving over 150,000 telephone users in its 120 sq mile license area, an investment financed partly by a European regional development grant of £7.5m.

Today, 76 per cent of all customers and 94 per cent of its 25,000 business lines are connected to the digital network, with complete coverage expected by 1991.

The digital network has brought a number of advantages to its customers, claims the company, including improved transmission quality, less congestion and low fault rates. The company has developed a number of its own applications for use with the network. It was the first PTO to offer itemised billing, for example.

In addition, local calls are the cheapest in the UK. Callers can stay on the line as long as they like for a fixed charge, or can opt to pay a flat rate for any number of local calls of any duration without any further cost.

Customers telephoning outside the license area can also choose whether to route their call through BT or Mercury.

The company is now building on the System X technology, currently running a trial of the Integrated Services Digital Network system, allowing voice, data and image to travel down the same telephone cable.

It plans to offer some ISDN services to the public before the end of the summer.

As a public limited company it is now free to extend non-regulated activities such as system and business equipment sales, outside its designated network area. It is a freedom that the company intends to fully exploit.

In May, for example, it announced details of a joint response with Plessey to the DTI's discussion document, Phones on the Move. The two companies gave their proposals for a national Personal Communications Network to commence in 1992, based on advanced radio technology.

The network would allow individuals to access all telecommunications services via their own personally numbered, pocket-sized, lightweight handset, from anywhere in the UK.

Alastair Guild

Paul Taylor highlights advances in value added network services

A revolution in global data transmission

FOR THE best part of the century since Alexander Graham Bell's telephone was demonstrated in Philadelphia in 1876, its basic function – to carry individual voice messages long distances over a metal wire – changed hardly at all.

Similarly, the suppliers of telephone services barely altered; they were mostly state monopolies run by civil servants or giant monolithic enterprises like AT&T of the US.

But in the last few decades this sedate world has begun to change out of all recognition. Forcing the pace has been technological advances, particularly the advent of widespread computer usage creating the need to transmit vast quantities of data around the globe, and dramatic moves in the regulatory environment.

Today, we are in the midst of a telecommunications revolution as voice, data and image communications converge and new regulatory structures develop to facilitate greater competition.

Nowhere is the impact of these changes more apparent than in the emerging market for value added network services – or Vans in telecommunications jargon.

Clear definitions of what constitutes a Vans are difficult to establish but the general regulatory authority ground rule is that they represent services that use the basic telephone network to manipulate information in voice, video or data form.

Most Vans involve the handling of data rather than voice. They include on-line electronic information services such as like Reuters, processing services like air-line reservation systems, inter-banking systems and electronic funds transfer, messaging services such as like electronic mail and electronic data interchange, and managed data networks.

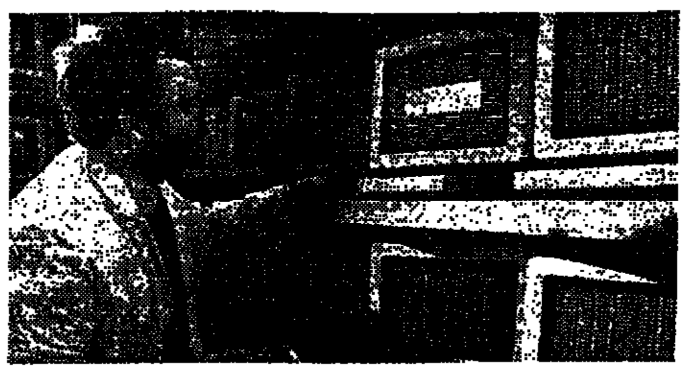
As such, they are in the vanguard of the move towards the information technology-driven society of the future.

Among the factors which are spurring the growth of Vans has been the need of companies to capture and deliver real-time information electronically across a telephone line, particularly in the banking and finance sector, and the growth of the use of computers which has led to the demand for electronic messaging systems. (Why pick up the telephone and use voice communications to convey a message when the information is already sitting on a computer screen?)

Computer messages can be stored if the intended recipient is unavailable, they can be sent to multiple destinations and they are generally faster, and therefore cheaper, than voice communications.

Such electronic mail systems range from in-house networks (not strictly Vans, unless they are tied into public systems) like IBM's system which links together its 350,000 worldwide employees, to public access systems such as Telecom Gold, run by BT.

While early predictions for the size of the electronic mail market have proved over optimistic, growth has nevertheless been impressive. Frost & Sullivan, the market consultants, suggest electronic mailbox services in Western Europe generated revenues of $514.8bn in 1987 and are forecast to rise to $1.5bn in 1992 led by the UK and the Nordic countries.



Ian Hamilton, British Telecom project engineer, carries out tests on M1500 computer terminals.

Although it is unlikely that electronic mail will replace traditional forms of personal communication in the foreseeable future – Frost & Sullivan suggests old-fashioned telephone calls and letter-post will still account for 95 per cent of personal communications in 1992 – moves towards interconnecting corporate in-house mail systems with each other and with public networks, could remove a major barrier to future growth.

Substantial growth is also likely in electronic data interchange systems which enable companies to exchange orders and bills electronically in standard formats.

While the most widespread use of the telephone system for data transfer remains within the large private networks run by multinational corporations the potential for ordering, invoicing and billing between companies electronically rather than by using pieces of paper is potentially huge.

Thus, EDI systems pioneered in the transport, retailing, and insurance industries are likely to proliferate as companies take advantage of new services to improve efficiency and cut costs.

Some governments, including those in the US and UK, have actively promoted the development of Vans because they believe such services will improve corporate efficiency and international competitiveness.

However, the development of sophisticated telephone information services internationally has been hamstrung by regulatory problems and the failure of the telecommunications authorities to facilitate international data transfer over public networks, particularly in Europe where many governments have have sought to protect local telephone service monopolies.

Now, under the impact of commercial pressures, technological advance like the introduction of Integrated Services Digital Network equipment, and an increasingly interventionist competition stance by the European Commission this *too could be changing.*

Ahead of the introduction of the single European market at the end of 1992, the European Commission has initiated a series of controversial moves aimed at both harmonising and liberalising the telecommunications marketplace. At the centre of these re-regulation moves is the Commission's drive for an Open Network Provision and a separate telecommunications services directive.

Last month, in a clear attempt to step up its attack on monopoly services, the Commission spelt out detailed new rules aimed at allowing private companies to provide value added services by the middle of next year and to offer their own basic data transmission services by the start of 1993.

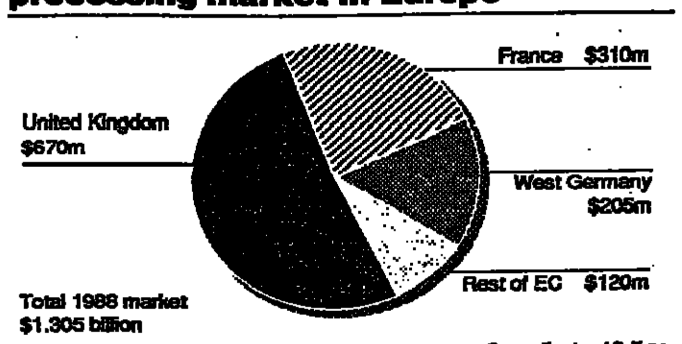
These developments are likely to be fiercly contested by some EC member-governments such as France, Belgium, Italy and Spain which resent not only the content of the Commission's latest plans but also the way in which Brussels is proceeding.

World market for value-added network services (US$bn)

Europe		1988	1989	1990	1995
UK	Information services	0.680	0.868	1.039	1.813
	Processing	0.038	0,066	0.096	0.172
	Messaging	0.090	0.144	0.215	0.403
	Other	0.022	0.040	0.064	0.112
	TOTAL	**0.830**	**1.116**	**1.414**	**2.500**
France	Information services	0.225	0.270	0.372	1.075
	Processing	0.034	0.054	0.061	0.292
	Messaging	0.046	0.074	0.170	0.450
	Other	0.019	0.024	0.034	0.190
	TOTAL	**0.324**	**0.422**	**0.570**	**2.070**
W Germany	Information services	0.240	0.310	0.391	0.910
	Processing	0.025	0.040	0.060	0.215
	Messaging	0.030	0.052	0.080	0.280
	Other	0.014	0.018	0.025	0.140
	TOTAL	**0.309**	**0.420**	**0.556**	**1.545**
Rest of Europe	Information services	0.505	0.679	0.875	1.342
	Processing	0.048	0.077	0.115	0.413
	Messaging	0.033	0.066	0.350	1.677
	Other	0.027	0.035	0.048	0.269
	TOTAL	**0.613**	**1.857**	**1.388**	**3.701**
USA	Information services	4.400	6.250	8.200	12.320
	Processing	0.404	0.661	0.982	3.046
	Messaging	0.930	1.240	1.580	2.920
	Other	0.229	0.326	0.477	1.983
	TOTAL	**5.963**	**8.477**	**11.239**	**20.269**
Japan	**TOTAL**	**1.700**	**2.750**	**4.000**	**9.150**
World	**TOTAL**	**9.739**	**14.842**	**19.254**	**39.172**

Source: Systems Dynamics' Value-Added Network Services Monitor.

Communications, information and processing market in Europe



Source: Frost and Sullivan

Such opposition could further delay efforts to agree a common competitive framework for value added services although Sir Leon Brittan, the EC Commissioner in charge of competition, has made it clear that while basic voice telephony should be protected, other telecommunications services must be opened up to newcomers.

Such regulatory changes, together with similar moves in the General Agreement in Tariffs and Trade, suggest to some like Mr Christopher Thomas, managing director of consultants Systems Dynamics, that the old distinctions between basic and value added services are likely to become even more blurred in the 1990s and that a more sensible distinction will be between reserved and non-reserved services where telecommunications authorities monopoly is confined to basic transport only.

Technologies of voice, data and image communications are converging

Few industry analysts doubt that barriers to competition in Vans will eventually tumble, even in countries like West Germany where the government is instigating change and following EC policy, even though the Budespost is resisting. But there is still much uncertainty over the pace of liberalisation.

In the end, the pace could be determined as much by commercial factors as by political expediency. While the figures for the scale and volume of Vans are often imprecise – reflecting differing definitions, it is clear that Britain, bolstered by relatively early telecoms liberalisation, has developed a much larger Vans infrastructure than some of its European neighbors.

Frost & Sullivan estimates that the market for communications, information and processing services delivered over public and private networks in Europe was worth $1.3bn last year with over *half* the market in the UK.

By 1993, Frost & Sullivan predicts the EC market will *have grown* to $7.95bn with West German overtaking the UK as the biggest market and France catching up.

Systems Dynamics projects similar growth but with different figures. According to Systems Dynamics the UK market for Vans was worth over $830m last year and the European total $2.1bn. By 1993, Systems Dynamics predicts a UK market of $2.1bn and European total of $7bn.

Who will be the principal providers of this projected boom in Vans traffic in Europe is, however, a moot point. What is clear is that the Vans market in the US is already considerably more developed.

Systems Dynamics says the US Vans market was worth $5.9bn last year and will grow to $16.2bn by the end of 1992, while the Japanese market will grow from $1.7bn to $6.7bn.

Many believe this in-built experience will help US multinationals grab the lions share of new international Vans business in Europe while Japanese technological expertise will enable them to capture the bulk of the emerging market for advanced ISDN terminal equipment.

In the Vans market, analysts predict there will be two kinds of players, global, and niche market players – local companies supplying domestic needs. As the market develops, a process of rationalisation is likely

There is some evidence in the UK that this is already happening.

While Vans suppliers such as Istel, the former Rover Group subsidiary bought-out by its employees, provides a range of electronic data interchange, viewdata and electronic mail services two of the biggest value added service providers are US-based multinationals, IBM and Geisco the GE subsidiary which has formed the INS joint venture with the UK's ICL computer group.

BT, through its acquisition of Dialcom, also appears determined to become a major international Vans supplier.

"The risks of entering the telecommunications networks services or vans marketplace are great and many of the players will fail or become part of a larger organisational structure through merger, acquisition or joint venture," said Mr Thomas of Systems Dynamics in a paper delivered earlier this month. "Such changes will characterise the industry throughout the 1990s."

The sedate world of traditional 'phone services is changing out of all recognition

He added, "for the user, the situation is equally fraught. Needing to improve his trading position and seeking security of supply, the attraction of buying service from an established and stable international vendor will be compelling."

What does appear certain is that the plain old telephone service – or "Pots" – as one consultant waggishly once called it, will continue to grow, but that sophisticated value added services, provided on a global basis, will evolve in a way that would have astounded even the telephone's inventor.

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday July 19 1989

INSIDE

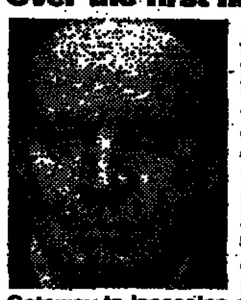
Research gives way to marketing

Pharmaceuticals may be the quintessential science-based industry, where research and development costs typically absorb 10 per cent of revenues and every "consumer" has a doctor's degree. But marketing and sales forces, not research laboratories, have become the key competitive weapons in the intensifying battle for global market share. This seems to be the main implication of the complicated two-stage merger deal formally signed yesterday between Marion Laboratories and Dow Chemical, writes Anatole Kaletsky. Page 24

Water, water everywhere

There can be few more lonely spots than the middle of the Timor Sea. Yet sometime in the next two months 60,000 barrels of oil a day will come bubbling from the sea-bed. Challis, Australia's newest oilfield, will come on stream and add its bounty to the 40,000 b/d from the Jabiru field, 20kms to the north. Page 30

Over the first hurdle



Anglo United has won the first round in its fight to win the support of institutional shareholders in Coalite, the fuel distribution business chaired by Eric Varley (left). The decision of the Prudential, one of the largest shareholders, to sell half of its holding to Anglo follows its disposal of its stake in Gateway to Isosceles and is being interpreted as a shift from its traditional policy of supporting existing management in contested takeovers. Ray Bashford reports. Page 27

Togetherness under the sun

The European Community has its mind set on 1992; for the Caribbean the target year is 1993. By then the 13 members of the Caribbean Economic Community intend to have integrated their economies and created a common market. As a step towards this goal, the member nations have agreed to establish a regional capital market. Page 25

Vintage gains allure

Spaniards may have dominated the two large privatisation issues in Portugal this year, but they are not the only foreigners with a keen eye on the potential of the Lisbon and Oporto stock markets. After drifting steadily downwards in miserable volume last year, Portugal is rousing itself as the government's sell-off programme focuses attention on this emerging market. Page 42

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
[illegible]				[illegible]			
NEW YORK ($)				TOKYO (Yen)			
[illegible]				[illegible]			
New York prices at 12.30							
LONDON (Pence)							
[illegible]				[illegible]			

IBM profits rise sharply in second quarter

By Roderick Oram in New York

INTERNATIONAL Business Machines has turned in sharply higher earnings for the second quarter of this year, boosted by higher worldwide demand across its wide product range.

The computer industry leader recovered to net profits of $1.34bn, or $2.31 a share, for the three months to the end of June. This compared with $1.61 a share in a disappointing first quarter, when a chip manufacturing problem hurt earnings.

A year earlier, net profits were $964m, or $1.63 a share, including a $600m, 61 cents a share, after-tax restructuring charge.

The latest profits are in line with Wall Street forecasts and slightly higher than the $2.20 to $2.30 range IBM had given recently as a guide to the investment community. None the less, its shares slipped $⅞ to $115⅛ yesterday morning against the backdrop of an overall weaker stock market.

Analysts were disappointed that IBM, though never effusive at the best of times, released a barebones report lacking discussion of its product range or performance forecasts.

Mr John Akers, chairman, said only: "We are pleased with the way our products are increasingly meeting the needs of customers and we continue to plan for growth."

Second quarter revenues increased 9.4 per cent to $15.21bn from $13.91bn a year earlier. "Customer response to our strategy of providing solutions has been very positive," said Mr Akers.

"As a result we experienced double-digit revenue growth in both our US and non-US operations."

Currency translation of foreign revenues, reflecting the strong dollar, reduced the overall growth in dollar terms.

The first half net profit was $2.29bn, or $3.92 a share, against $2.21bn, or $3.73.

Revenues grew by 7.6 per cent to $27.94bn from $25.97bn.

Net profit margins slipped slightly to 8.2 per cent in the first half from 8.5 per cent a year earlier.

IBM continues to reap a growing reward for its cost cutting efforts of recent years involving rationalisation of plants and bureaucracy.

In the second quarter, costs and expenses rose by only 3.8 per cent, while operating income increased 55.8 per cent to $2.33bn from $1.5bn.

Analysts are looking for the second quarter net profits improvement to be repeated in the third quarter as the company continues to catch up with shipments lost during the first quarter because of the chip problem. Filling the delayed orders has been relatively slow because of IBM's tight production schedules.

Wall Street is expecting a modest increase in full-year earnings per share to around $10.50 a share, up some 7 per cent from a year earlier.

The stock continues to perform poorly, standing only some 13 per cent over its low during the October 1987 market crash, while the Dow Jones Industrial Average has risen 46 per cent.

But strong demand for its AS/400 mid-range and PS/2 personal computers should help underpin fairly strong growth in earnings in coming years.

US stock exchanges in merger talks

By Deborah Hargreaves in Chicago

THE Philadelphia Stock Exchange disclosed yesterday that it is in talks with the American Stock Exchange and two other major US exchanges with a view to a possible merger.

The talks are understood to have been going on for some time, but the PHLX stresses that the outcome is by no means certain. Mr Nicholas Giordano, president of the PHLX, said in a statement: "The truth is, our exchange has never had greater value. Our volume and profits were at record levels during the first half of the year."

Mr Giordano acknowledged that the PHLX had been involved in "substantive" discussions with all three exchanges, but said there would be great difficulties in completing a combination.

The PHLX is known to be discussing a merger with the Amex that would involve a move of its options business to New York. The PHLX is the premier market-place for currency options in the US and a combination with the Amex would create the US's second largest options market after the Chicago Board Options Exchange.

The Amex averages some 200,000 contracts a day in its equity and index options market, while the PHLX trades some 100,000 currency and stock options a day. The CBOE, the industry leader, trades a daily average of about 500,000 options.

The merger talks have been prompted largely by a drop in retail investor interest in options following 1987's market crash.

A move by the Securities and Exchange Commission to open up the equity options business to more competition contributed to the interest in Philadelphia.

The SEC's decision to allow multiple listing of options on US exchanges will make it more difficult for regional markets like Philadelphia to compete against the Amex and the CBOE.

Philadelphia's strongest contribution to any merger will be its currency options business. Its success with currency options since their start-up in 1982 was underlined two years ago when the CBOE transferred to the PHLX a series of currency options it had set up in competition.

This is not the first time that the regional stock exchanges have discussed a combination. "We are proceeding on the assumption that that PHLX will be independent for at least another 200 years," Mr Giordano said yesterday.

Du Pont buys UK electronic printing business

By David Waller in London

DE LA RUE, the UK bank-note printer which suffered a severe drop in profits last year, yesterday announced the sale of its Crosfield Electronics printing technology subsidiary for £235m ($381m) in cash to Du Pont, the US chemicals conglomerate, and Fuji Photo Film.

The disposal comes days after a public row between De La Rue and Mr Robert Maxwell, the British publisher. Mr Maxwell picked up 15 per cent of the company after the October 1987 stock market crash, and a further 6.1 per cent has been bought by Scitex, an Israel-based competitor of Crosfield, which is 27 per cent owned by Mr Maxwell's Mirror Group Newspapers. Scitex made clear last week that it wanted to buy Crosfield.

Du Pont has targeted the imaging systems business for growth. Until the Crosfield deal its experience has been limited to black and white systems and a joint venture in colour imaging with Fuji.

Mr Clifford Schwieter, business director for Du Pont's electronic imaging systems division, said: "Both Fuji and Du Pont are new to this market, in which we want to offer a full spectrum of colour pre-press equipment."

In June this year, De La Rue indicated that it was looking for a strategic partner for the business when it reported 1988-89 pre-tax profits down from £62.42m to £36.3m in June. Profits at Crosfield – which makes colour imaging and page composition systems used in newspaper production – were down from £21.1m to £5.2m.

Mr John White, De La Rue's finance director, explained yesterday that, although Crosfield had been the engine of the group's growth during the present decade, its business was volatile and required too much capital expenditure to maintain its position in an increasingly competitive market.

The price obtained was higher than analysts' forecasts, which were in the region of £150m. Net assets at the end of March were £138m and the sale price is some 17.2 times historical earnings.

De La Rue is also selling a leasing business with bank borrowings of £40m, formerly guaranteed by De La Rue, but it is retaining Crosfield's press controls business, which hopes to make profits of £2m this year.

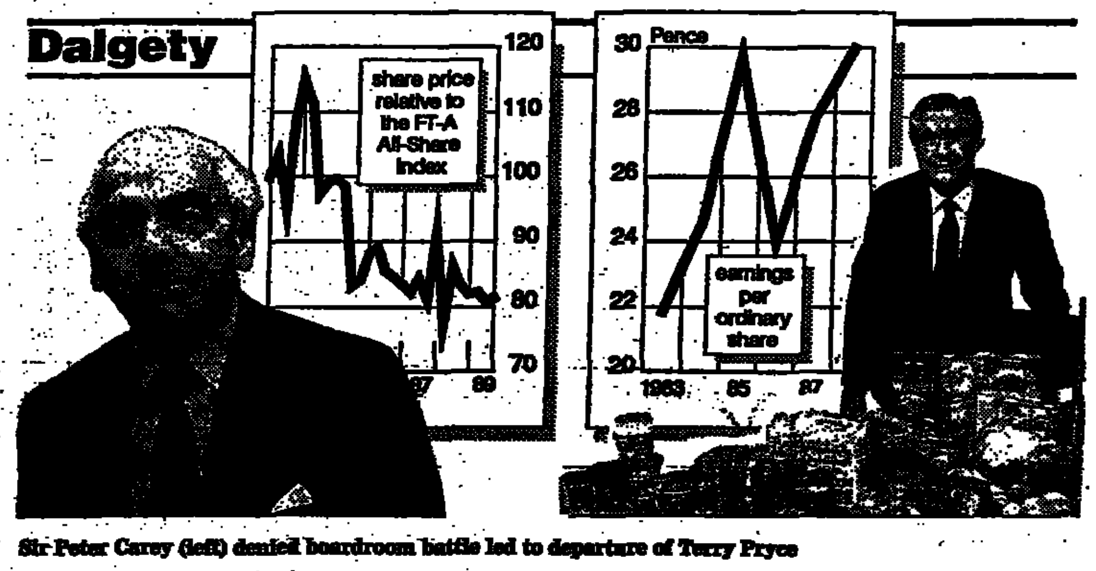
Scitex was denied the information on Crosfield shown to other would-be buyers on the grounds that such data was commercially sensitive. De La Rue was assuming that a sale to Scitex could pose anti-trust problems.

Mr Maxwell's response was to launch a market raid via Scitex which gave the Israeli company 8.5m shares in De La Rue.

The deal requires the approval of a majority of those attending an extraordinary general meeting scheduled for August 3.

With this disposal, De La Rue sheds a difficult and cash-absorbing business – but also approximately half its turnover. Its remaining businesses will include the loss-making Printrak finger-print identification business, security printing and banknote printing.

Lex, Page 28; Details, Page 29



Sir Peter Carey (left) denied boardroom battle led to departure of Terry Pryce

Two UK undertakers agree merger plan

By David Waller in London

TWO OF the UK's three listed undertakers – Hodgson Holdings and Kenyon Securities – yesterday announced a merger via a complex deal which will leave Pompes Funebres Generales, the French funeral director, with a 25 per cent holding in the new group.

Mr Howard Hodgson, chairman of Hodgson and managing director designate of the new combine, explained that the merger was agreed against a background of declining mortality in the UK.

This put pressure on the quoted companies to grow by acquisition, he explained. Given that some 70 per cent of the costs incurred in the funeral business were fixed, economies of scale could be achieved by putting businesses together, and the profit for each funeral could rise dramatically.

The new group would also expand internationally, he said.

Pompes – itself a subsidiary of Lyonnaises des Eaux, the second biggest French water company – bought a 29.2 per cent stake in Kenyon in June last year.

The merger of the two groups is to be brought about via a takeover of both the companies by a new vehicle called PHK International. Shareholders in both the UK companies are being offered one new share in PHK for one share held in either Hodgson or Kenyon, plus cash for between 20 and 50 per cent of existing holdings.

City observers found it difficult to make sense of the offer, as the terms are the same for both the companies despite the fact that they enjoy different market ratings and are of different sizes. Including two convertible issues, Hodgson was capitalised at £63m ($102m) last night, with Kenyon at £29m. The price put on Hodgson by the deal was 8¾ times prospective earnings, compared to 12 times for Kenyon.

Dalgety gets a sudden taste for fresh blood

Christopher Parkes on the departure of chief executive Terry Pryce

Yesterday's blip in the Dalgety share price and the morning's turnover of around 2m shares suggested that the circling sharks had detected blood in the water. With no hint of an explanation, the food and agribusiness group had on Monday announced the end of Mr Terry Pryce's eight-year tenure as chief executive.

"This does not indicate any trouble...we simply got to the point where we needed to decide the long-term future," said Sir Peter Carey, Dalgety's chairman, who denied there had been a boardroom battle.

Nevertheless, the move seems bound to revive the bid speculation which has periodically surrounded the company for years, and which has been given added piquancy by the recent emergence of the Australian entrepreneur, Mr Robert Holmes à Court, as a 5.5 per cent stakeholder.

So just how and why did Mr Pryce step down, and what has been Dalgety's record under his leadership?

It is understood that he was removed after a tense debate among directors about the future direction of the group and management succession. There was concern in the boardroom over the fact that the four most senior executive directors, Mr Pryce, Mr Peter Gardiner, who runs US operations, Mr Maurice Warren, in charge of Europe, and Mr Bruce Vaughan, head of Australian pastoral businesses, are all in their mid-fifties and approaching retirement age.

The view grew that a new chief executive was need to take the company into the 1990s – a decision akin to that of Sir Hector Laing who has nominated 36-year-old Mr Eric Nicoli as his heir apparent at United Biscuits.

With all the non-executive directors and the rest of the board reportedly solidly behind the chairman, Mr Pryce was confronted last Friday.

"It's not a split...not unless you can call 99-to-one a split," claimed Mr David Lang, an analyst at Henderson Crosthwaite.

Mr Pryce is being replaced by Mr Warren, the man credited with building Dalgety's animal feeds business to within an ace of challenging Unilever's BOCM for UK market leadership and knitting together a substantial UK food business. However, Sir Peter Carey made clear that Mr Warren was a stop-gap. The search was on for a longer-term appointee.

This all seems rather clumsy for a company regarded in the City as having considerable internal management skills and some City critics suspected that Mr Pryce's abrupt departure might indicate problems deeper than advancing old age in the boardroom.

That said, Dalgety has never been renowned for its flair in public relations. Mr Pryce himself was considered somewhat defensive when he came up against institutional shareholders – pleasant enough, but cagey – and the group has an overall dull image, only partly attributable to its relatively poor earnings growth compared with others in the UK foods business.

Nevertheless, over the past few years its traditionally stodgy image has improved as Mr Pryce has presided over its transformation from a highly-diversified group, with a strong Australasian focus, into a three-legged operation focused on food, agribusiness and commodities.

There have, however, been troughs along the way: the City was critical in 1985 when Dalgety bought Gill & Duffus, the commodities broker. "You can squeeze more out of these lemons," said Mr Pryce, and a year later the lemon was well and truly squeezed by the collapse of the international tin market. He also claimed Dalgety would make Gill's Pearce Duff grocery brand "hum." It has barely been heard of since.

That brand management was neither a Dalgety forte nor a priority was also apparent from the virtual disappearance of Fred the flour grader and his colleagues, popular cartoon characters who promoted Homepride flour.

But Mr Pryce also played a leading part in the disposals programme which have honed down the shape of the group. During 1987 Dalgety sold off assorted oddments in malting, timber, chemicals and insurance broking, all the while picking up small purchases to complement its main businesses. It made 15 acquisitions in the first six months of 1988 alone.

Further purchases seem likely, probably to complement its growing presence in food, which last year accounted for more than two-thirds of pre-tax earnings.

Its main UK businesses, including branded businesses such as Golden Wonder crisps and pot noodles, Homepride flour and Spillers pet foods all hold strong positions . However, pressure is expected to mount following PepsiCo's purchase of the Smiths and Walkers businesses from France's BSN, which hold the lion's share of the crisp market.

Spillers, a creditable number two behind Mars in the pet food business, is also finding competition mounting from Nestlé, which is spending £8m in Britain this year on its new Friskies line.

In the US, Dalgety's Martin Brower subsidiary is a leading supplier to the McDonald's hamburger chain. But the group has also been busy developing other strengths in fresh produce supply. In the past eight months it has bought Lee Brands, which boasts the tag line "the world's leading asparagus company," and Hyatt Pre-Pack, which prepares and distributes fresh salads to fast food chains like Burger King and Long John Silver, America's glossy answer to the British fish and chip shop.

Sir Peter Carey was prepared yesterday to offer at least a hint of the group's future direction. Dalgety was now a predominantly British food company with strong interests in the US, he said.

"We are on the threshold of another transformation – maybe a consolidation of the way we are going. With the big players gobbling up large parts of the market we need to position ourselves somewhat more robustly."

Mr Pryce had presided over the the first transformation from an Australasian pastoral group, but people tended to get set in their ways. New blood was needed. "We don't want to go round the same track again," Sir Peter said.

"In any case, eight years is a long time in the top job...*pace* Mrs Thatcher."

Good quarter for US drugs groups

By Karen Zagor in New York

WARNER-LAMBERT, the US pharmaceuticals and non-prescription health products group which produces Listerine, yesterday reported a 22.6 per cent increase in second quarter net earnings to $112.4m or $1.66 a share against $91.6m or $1.35 a year earlier.

Revenues rose 8 per cent to $1.02bn from $951.3m. For the first half, net income jumped 21.9 per cent to $213.4m or $3.15 cents a share from $175.1m or $2.57 the previous year. Sales advanced 8.7 per cent to $2.04bn from $1.88bn.

"This continues to be one of the strongest periods of sustained growth in Warner-Lambert's history," said Mr Joseph Williams, chairman and chief executive.

He added that each of Warner Lambert's major businesses – ethical pharmaceuticals, over-the-couter health care products and confectioneries – contributed to the recent gains.

Worldwide sales of the company's ethical pharmaceuticals products rose 9 per cent in the quarter to $323m, led by the cardiovascular drugs Lopid and Dilzem. US sales for the sector jumped 19 per cent.

Worldwide sales of non-prescription health care products rose more than 6 per cent to $316m. Confectionery sales advanced 11 per cent to $259m, led by Trident sugarless gum and Clorets gum and breath mints.

Upjohn, the US pharmaceutical company which recently started marketing its anti-baldness drug, Rogaine, also reported improved second quarter earnings.

Net income improved 8 per cent to $94.6m or 51 cents a share from $87.8m or 47 cents. Sales rose 2.1 per cent to $736.5m from $721.6m.

For the first six months, net income was up 7.9 per cent to $197.6m or $1.07 a share on sales of $1.49bn from $183.2m or 98 cents on sales of $1.38bn the previous year.

Operating income for the quarter fell 7 per cent to $121m and amounted to 16 per cent of sales. For the first half, operating income was down 2 per cent.

Total US sales for the quarter rose 5 per cent to $454m. Foreign sales, which accounted for 38 per cent of consolidated sales, fell 3 per cent to $283m. Overseas sales were hurt by the strong dollar. Consolidated sales were helped by a 5 per cent price rise.

The company hopes to benefit from a US Food and Drug Administration ruling which prohibits companies from making unsubstantiated claims that their over-the-counter products can grow hair or prevent hair loss.

Mr Theodore Cooper, chairman and chief executive, said "This action by the FDA reinforces our postion that Rogaine is the only scientifically proven treatment for hair loss."

American Home Products, another leading manufacturer of prescription and ethical drugs, reported a 10 per cent increase in second-quarter net income to $236.7m or $1.61 per share against from $215.8m or $1.48 the year before. Sales rose 2 per cent to $1.4bn from $1.37bn.

For the first half, net income rose 11 per cent to $500.5m or $3.41 cents a share from $452.9m or $3.10 cents a year earlier. Sales were $2.92bn against $2.78bn.

Net sales of health care products rose 1 per cent for the quarter and 4 per cent for the first six months. Sales of food and household products rose 6 per cent for the quarter and 8 per cent for the first half.

The New York company said sales for the quarter were hurt by unfavourable exchange rates for foreign operations. However, this was partially offset by cuts in foreign tax.

WH Smith to buy Waterstone for £42m

By Maggie Urry in London

W.H. SMITH, the UK retailing group, is to increase its share of the British book market from about 17 to 20 per cent through a phased deal to buy the Waterstone's chain of book shops for at least £42.2m ($68m).

Smith is to merge Sherratt & Hughes, its own specialist book shop chain, with the Waterstone's chain. The Sherratt & Hughes shops will take the Waterstone's name and the merged company will be chaired by Mr Tim Waterstone.

He founded Waterstone's in 1982 after being sacked by W.H. Smith and he has built it up to a 30-shop chain noted for good design and service and a wide range of stock.

Mr Waterstone said he had decided to sell the business because it could not fund its fast rate of expansion internally. Smith approached him on May 23, he said, with a "very skilfully prepared offer" and negotiations were rapidly concluded.

The merged business will be 50.5 per cent owned by Smith and 49.5 per cent by Waterstone, the company which owns the Waterstone chain.

Smith is buying up to about one third of Waterstone now, with an offer of 350p a share, totalling up to £9.3m, and it has agreed to buy the rest of the company for a minimum of 480p a share in 1992 or 1993, valuing the group at at least £42.2m. Waterstone shareholders could receive more than that, depending on the the profitability of the merged company.

Mr Waterstone himself bought shares in Waterstone at 4p, and holds 23 per cent of the company. The venture capital group 3i came in at a price of 10p, and under the Business Expansion Scheme many investors bought in at 14p, net of tax relief.

Sherratt & Hughes has 48 shops, and its turnover in 1988 was £28.5m, with pre-tax profits of £1.7m. Waterstone has 30 shops, which are larger than the Sherratt & Hughes ones. Its turnover was also £28.5m but it made a loss before tax of £1m in 1988.

Banesto takes Portuguese partner in Banco Totta deal

By Diana Smith in Lisbon

BANESTO, Spain's third largest bank, has lined up with a new Portuguese group headed by the financier Mr Jose Roquette to acquire a substantial shareholding in Banco Totta e Açores (BTA), the Portuguese state-controlled bank which sold 49 per cent of its capital to the public earlier this month.

BTA, nationalised in the 1975 revolution, is expected eventually to be completely privatised.

Mr Xavier Abad, director-general of Banesto's international department of Banesto, said in Lisbon yesterday that his bank was seeking alliances throughout south-western Europe in preparation for 1992's single market.

He added that Portugal was a top priority because of the impressive growth of economic relations between Spain and Portugal.

In future, Mr Abad said, Banesto would seek alliances with banks in the south of France and in northern Italy to build up a strong European network.

Because of Portuguese legal restrictions on acquisition by foreigners of more than 5 per cent of the capital of privatised state-run institutions, Banesto was obliged to seek a Portuguese partner.

Banesto chose Mr Roquette's group because it was prepared to bring its own financial contribution to the association. Other Portuguese groups are known to have been interested in a partnership with Banesto but apparently they were not prepared to put up sizeable funds.

As a result of the partial privatisation, Banesto holds 3.32 per cent of BTA's capital after a successful but expensive block purchase which cost it Es4,400 per share, more than twice the basic asking price.

The Roquette group initially acquired 7.88 per cent but since the share offer began it has built up its holding through discreet purchases to 10 per cent.

This gives the group and Banesto a combined stake of more than 13 per cent of BTA and, they hope, at least one seat on BTA's new board.

According to Mr Abad, Banesto and the Roquette group will now form a holding company which will not only handle their BTA acquisition but will in future look for other opportunities in Portugal, possibly in the industrial area, and serve as a springboard to develop new products for BTA, including brokerage and other firms.

It is understood that BTA is quite receptive to the idea of an association with Banesto: the alliance might also permit the Portuguese bank to penetrate the Spanish market and even take shares in future in Banesto if it so desired.

Banco Hispano-Americano also tried to acquire a sizeable-enough share of BTA to permit it to form an association similar to the one contemplated by Banesto.

But the combined forces of Mr Roquette and Banesto were too much for it. This bank is likely to try again when other Portuguese nationalised banks are privatised in the next couple of years.

AECI confident after smart first-half gain

By Jim Jones in Johannesburg

AECI, South Africa's largest diversified chemicals group, lifted sales by a quarter in the six months to June and profits benefited from rationalisation on the domestic fertiliser side.

First-half turnover increased to R2.26bn ($830.1m) from R1.81bn and the pre-tax profit was R202m against R143m. Mr Mike Sander, the chairman, says domestic sales volumes rose by 10 per cent helped by the introduction of additional capacity at the Coalplex plastics plant and the acquisition late in 1988 of a competitor's fertiliser interests.

He believes earnings will increase further during the second half of the year provided there is a reasonably stable business environment in the industrial and mining sectors. He warns, however, that the profit growth rate of 1988 is unlikely to be repeated.

Net earnings increased to 94 cents a share from 61 cents and the interim dividend has been lifted to 30 cents from 25 cents. Last year's full earnings were 165 cents and the dividend totalled 75 cents.

Comit link set to go through

By John Wyles in Rome

MR ROMANO PRODI, chairman of Iri, the Italian state holding company, appears to have mustered enough votes to secure board approval today of the exchange of shareholdings between Banca Commerciale Italiana (Comit) and Paribas of France.

The deal was surprisingly blocked three weeks ago after representatives of four of Italy's five governing parties abstained on the grounds that a study was needed of BCI's overall strategy.

Iri has a 59 per cent stake in Comit and will be surrendering a 2 per cent block through the deal with Paribas. BCI is to acquire its Paribas shares in the open market.

Yesterday, both Liberal and Social Democratic Party spokesmen said their representatives would be voting for the deal today and the Republican nominee is also expected to follow suit.

Mr Massimo Pini of the Socialist Party, the most frequent opponent of Prodi initiatives, also said yesterday that the Iri chairman would have to resign if he lost today's vote.

It is still not altogether clear why the political nominees abstained at the last meeting. Mr Pini appears to believe that there is a plot afoot quietly to privatise Comit and that the Paribas agreement is the first step.

This is despite the fact of a formal Iri board decision that the holding company's stake will not be allowed to fall below 51 per cent.

Write-off hits Intel profits

By Louise Kehoe in San Francisco

INTEL, the US semiconductor manufacturer, plans to close one of its manufacturing plants in California, taking a charge against second-quarter earnings, which were reported yesterday.

Net income in the quarter was $99m or 53 cents per share against $130.7m or 73 cents in last year's second quarter. Revenues were $747m, up from $737m a year earlier.

This year's second-quarter earnings were reduced by a $17m pre-tax charge to cover costs associated with the planned closing of the company's wafer fabrication plant in Livermore, California.

The company said orders received in the second quarter were up from those in the first quarter and that new orders for its latest microprocessors were particularly strong.

Commenting on the plant closure, Dr Andrew Grove, president and chief executive, said the plant was the company's oldest. The 400 people employed at the Livermore plant will be offered jobs elsewhere in the company, Intel said.

Intel's stock fell from $31⅞ to $29 in heavy trading on the profits news.

For the six-month period, revenues rose to $1.5bn from $1.4bn. Net income was $196.3m or $1.05 per share compared to $224.4m or $1.27 per share in the same period last year.

Puma sees profitable year after first-half recovery

By Our Financial Staff

PUMA, the West German manufacturer of sports shoes and clothing, expects to make a profit in the 1989 calendar year, after breaking even last year.

The group's net profit in the first half of 1989 totalled DM2m ($1m), after a net loss of DM11.1m in the same period last year, announced Mr Hans Woitschätzke, the management board chairman.

First-half sales reached DM296.8m and parent company sales DM217.5m, he said. Group sales in the whole of 1988 totalled DM798m, down from DM850m in 1987, when Puma made a DM32.5m loss.

"We have turned the corner," Mr Woitschätzke told the annual shareholders' meeting, although he made no exact profit forecast.

Drastic cost cuts, trimming the product range and cuts in warehouse stocks were responsible for improving Puma's prospects this year, he continued.

● Franz Haniel, a diversified West German trading and transportation company, said it has signed a preliminary agreement to purchase Gateway Foods, a Wisconsin-based wholesale and retail food company. Terms were not disclosed.

Haniel said it expects its Oklahoma City-based wholesaler subsidiary Scrivner to reach final agreement with Gateway Foods by the end of August.

Gateway Foods is not related to Gateway Corp, Britain's third-largest food retailer, which has been the subject of a takeover fight in recent months.

Haniel said that both US companies complement each other geographically. Scrivner had 1988 sales of about $3bn, while Gateway Foods sales amounted to about $2bn.

UK footwear retailer accepts Clayform bid

By Philip Coggan in London

STEAD & SIMPSON, the UK footwear retailer, yesterday agreed to a £120m ($194m) cash takeover by Clayform Properties, just a year and a day after narrowly escaping a hostile bid from the property group.

Mr Peter Gee, Stead & Simpson's chief executive, said that "a lot of things are said in the course of a hostile bid but since then we've had a chance to sit down and talk to the Clayform people."

Clayform offered £108m for the group last year. However, non-voting "A" shareholders in Stead & Simpson are only being offered 152p per share, plus a 6p net dividend paid from Stead & Simpson's own resources, as against 151p last year.

Voting shareholders are being offered £21.55p per share, compared with the previous £14.50.

INTERNATIONAL COMPANIES AND FINANCE

Futures trading offsets higher costs at Anglovaal

By Jim Jones in Johannesburg

PROFITS from hedging have helped the three big gold mines managed by the Anglovaal group of South Africa to overcome some of the disadvantages of reduced production and higher costs.

The house is the only one of the country's mining groups to trade actively in futures markets and, at present, its strategy is to enhance gold revenue should the metal's spot price remain below $400 an ounce during the present quarter.

The group's produced less gold during the June quarter than in the three months to March. It fell mainly because Hartebeestfontein, the largest mine, suffered a drop in gold recovery grade which was not offset by a higher underground ore processing rate.

Hartebeestfontein's underground mining operations are shifting gradually towards lower grade ore zones in the north-western part of the mine property, and analysts in South Africa warn that overall gold recovery grades are likely to decline gradually.

In the Orange Free State the Loraine mine reduced its ore milling rate but increased its pre-tax and after-tax profits. Hedging transactions allowed the mine to report the highest rand gold price of the industry – R3,202 per kg – with the result that revenue rose faster than costs.

Anglovaal is evaluating a new mining prospect to the north of Loraine and expects to decide on its viability by the end of the year.

Eastern Transvaal Consolidated, which operates several small gold mines in the mountains of the area, maintained its ore milling rate in the June quarter but suffered a fractional decline in recovery grade. The company has been spending heavily on new mine developments in recent years and is exploring further gold seams near its present mines.

ANGLOVAAL GOLD QUARTERLIES

	Gold produced (kg) Jun 89	Mar 89	After-tax profit (Rm) Jun 89	Mar 89	Earnings per share (cents) Jun 89	Mar 89
E. Tvl Cons	872	878	12.7	10.6	75.5	130.0
Hartebeest	7,610	7,944	68.1	65.7	57.3	48.1
Loraine	1,975	2,019	7.1	4.5	25.6	19.4

Earnings per share calculated after tax and capital expenditure.

JCI GOLD QUARTERLIES

	Gold produced (kg) Jun 89	Mar 89	After-tax profit (Rm) Jun 89	Mar 89	Earnings per share (cents) Jun 89	Mar 89
Randfontein	6,693	6,279	43.9	31.9	164.3	336.3
W. Areas	2,981	3,249	(8.2)	(1.4)	47.5	(29.9)

Earnings per share calculated after tax and capital expenditure. Parentheses = negative

ANGLO WILL CONTINUE BUILDING OVERSEAS INTERESTS THROUGH MINORCO

ANGLO AMERICAN Corporation intends to continue building up its overseas interests through Minorco, its foreign investment arm, but will remain rooted in South Africa, Reuter reports from Johannesburg.

Mr Gavin Relly, the chairman, said in his annual address to shareholders that Minorco's UK sale of its 29.9 per cent shareholding in Consolidated Gold Fields to Hanson this month gave Minorco an opportunity to take advantage of new investment opportunities from a powerful cash base.

Anglo American and its De Beers Consolidated Mines affiliate together hold 68.1 per cent of Minorco. "Anglo American's policy of building up its overseas interests within its own relatively limited foreign resources . . . will continue both directly and in support of Minorco," Mr Relly said.

"At the same time we are first and foremost a grassroots South African entity, and have no desire to change that."

JCI mines' results mixed as costs rise and gold price falls

By Jim Jones

RESULTS FROM Randfontein and Western Areas, the two operating gold mines managed by the JCI group, highlighted difficulties faced by South Africa's gold mines during the current period of rising costs and poor gold prices.

Western Areas reduced its mill throughput and recovery grade as a result of substantial changes in its mining plan, so sharply increased its operating loss.

Mr Ken Maxwell, the chairman, said in Johannesburg yesterday that the mine's losses and its resultant large debt were "very worrying indeed," but he sees no prospect of the mine closing and expects profits by the end of this financial year.

At present the mine is engaged in an extensive move towards mechanised mining, but is having to increase its production from conventional mining before it prepares the ground for full-scale mechanisation.

The average gold price received by Western Areas was higher than the industry's average as a result of put options taken out last year. These options have now expired and no new ones have been entered into.

The mine's financial plan for the present fiscal year has been based on an average gold price of R35,000 ($12,555) per kg against the June quarter's R33,793. However, Mr Maxwell says that JCI's mining costs are likely to rise in line with inflation, at about 15 per cent a year.

In contrast, Randfontein increased its milling rate and recovery grade, helped by better grades of ore drawn from the new Doornkop section. The mine is gradually increasing the proportion of ore drawn from underground and reducing the fraction taken from low-grade surface dumps. Mr Maxwell expects the mine's overall grade to improve slightly in the next two quarters.

Indian vehicle maker opts for Peugeot technology

By R.C. Murthy in Bombay

MAHINDRA and Mahindra, India's only maker of Jeep-like all-terrain vehicles, has opted for Western automotive technology despite its access to Japanese knowhow through its absorption of Allwyn Nissan, a light commercial vehicle maker in Andhra Pradesh.

Mahindra is strengthening its ties with Peugeot by offering the French company 5.2 per cent of its equity through a convertible bond issue later this year. Peugeot has supplied engine technology for Mahindra and is now offering knowledge for local production of pick-up trucks and other light vehicles, India's fastest growing automobile segment.

This is the first Western collaboration in light commercial vehicles after the recent Japanese wave that swept the Indian automobile industry. Half a dozen Japanese companies, including Toyota and Mazda, have set up local production ventures over the past four years.

Mahindra, which acquired control of Allwyn Nissan last year, has decided to fit the LCVs with locally-made Peugeot engines instead of more expensive Nissan imports to make the vehicle competitive.

Nissan, which has 24 per cent equity in Allwyn Nissan, has agreed to the arrangement.

The future of the Mahindra-Nissan partnership will be determined when Mahindra draws up diversification plans for Allwyn Nissan. This will be once the company is back in the black.

Sales at Mahindra rose strongly to reach Rs9.35bn ($608.2m) in the 17 months to March, up 17 per cent on an annual basis. Gross profit was Rs536.7m, a yearly rise of 29.4 per cent. Profits after tax were Rs185.3m and the dividend is Rs3.5 against Rs3.0 for the previous 12 months.

UBS boosted by recovery in securities operations

By John Wicks in Zurich

UNION BANK of Switzerland yesterday reported "considerably better results" for the first half of 1989 than for the corresponding period of last year and expects earnings for the year to exceed the SFr778m ($472.4m) recorded in 1988.

The bank said that in the first six months of this year, income displayed a "gratifying recovery in the various sectors of the commission and trading business," with earnings from securities operations and foreign-exchange trading considerably above 1988 figures.

Net interest income, however, went up only slightly and this as the result of higher volumes of business. With the second quarter bringing what UBS calls a favourable business development, the bank's balance-sheet total rose to SFr172.1bn at the end of June, compared with SFr166.5bn at the end of 1988.

This was the net effect of contrasting trends in various sectors of activity. Thus, loans and advances to clients were up 12.6 per cent to SFr95.2bn, due mainly to rises in the fixed-advances total and mortgage loans, while the due-from-banks total declined by some 13 per cent to SFr49bn "as a consequence of caution exercised in view of margins."

On the liabilities side of the balance sheet, the bank says trends were unsatisfactory in the first half. Savings and deposit books and accounts dropped by SFr2.1bn owing to interest levels, while the higher-interest time deposits jumped by SFr8.9bn to as much as SFr51.6bn. The due-to-banks sum contracted by SFr1.1bn to SFr41.6bn.

Telephones lift Kenwood

By Robert Thomson in Tokyo

KENWOOD, the Japanese audio equipment maker, showed a 7.4 per cent increase in pre-tax profit to ¥1.97bn ($13.9m) in the first half of its year to May, following strong sales of cordless telephones and despite a flat market for its audio equipment.

The company has been expanding its communications equipment division, and sales of cordless phones and other communications items rose by 44.8 per cent, while total sales rose by 5.4 per cent to ¥71.2bn.

For the year, the company predicts a pre-tax profit of ¥3.5bn, up 14.2 per cent on last year, with sales of ¥145bn, an increase of 5.7 per cent.

INTERNATIONAL COMPANIES AND FINANCE

Increased trading volume boosts US securities firms

By Janet Bush in New York

SEVERAL Wall Street securities firms reported improved second quarter earnings yesterday, reflecting higher trading volume in stock and bond markets, and booming business in the merchant banking business for some.

Merrill Lynch, with a substantial retail business as well as a highly developed merchant banking group, reported net earnings in the second quarter of $70.2m, or 62 cents a share, a 31 per cent gain from a year earlier when net earnings totalled $53.5m or 47 cents.

This is an impressive recovery from the doldrums of the three months to March 31 when earnings per share halved to 31 cents, against the first quarter of 1988.

Mr William Schreyer, chairman, and Mr Daniel Tully, president, said the latest results underscored the value of the company's "one-firm, two-sector business." They said there were solid revenue increases in virtually all areas of its consumer business including commissions, insurance and asset management.

Merrill Lynch Capital Markets continued to perform strongly in principal transactions and in merchant banking and retained its number one ranking in the global and domestic underwriting of debt and equity securities.

Commission revenues advanced 18 per cent to $462m, while investment banking revenues fell 8 per cent.

Morgan Stanley announced earnings of $112.1m or $2.83 in the second quarter, compared with $135.3m or $3.52 a year earlier. News of a 37.5 cents a share quarterly dividend, an increase of 22.2 per cent from previous pay-outs, helped the shares to a gain of $1¾ at mid-session to $70⅜.

Net revenues were $631.6m, including a pre-tax gain of $51.5m principally from the restructuring of the investments in Essex Group and Silgan Corp. In the second quarter, 1988, revenues totalled $619.4m, including a hefty pre-tax gain of $123.7m from the sale of its investment in Cain Chemical. The company's top three executives said the favourable operating performance reflected the balanced mix of Morgan Stanley's world-wide business.

PaineWebber Group reported net second quarter earnings of $15.1m, against $159,000 a year earlier, representing earnings of 33 cents, compared with a loss of 22 cents a year earlier.

Mr Donald Marron, chairman, said the results reflected better market conditions and progress in improving the economics of the firm itself.

Citicorp rises 10% to $395m

By Roderick Oram in New York

CITICORP, Wells Fargo and Continental, three money centre bank holding companies, have reported increased second quarter profits for reasons ranging from buoyant consumer banking to strong US loan demand.

Citicorp, the largest US banking group, turned in net profits for the three months ended June of $395m, or $1.11 a share, up 10 per cent from $359m, or $1.03, a year earlier. Revenues were ahead 7 per cent at $3.32bn against $3.11bn.

First half net was $824m, or $2.63 a share, up 29 per cent from $717m, or $2.04, a year earlier, on revenues of $6.8bn against $6.15bn.

Citicorp said that the earnings growth reflected continuing strength in its consumer banking business around the world and local currency business in emerging economies. Net income from this sector jumped to $208m in the quarter from $165m.

Results were weak in corporate and investment banking in the main industrial economies because of lower venture capital gains and trading results.

New commercial loans increased by $249m during the latest quarter to $2.48bn, with US commercial real estate loans contributing $1.15bn, up more than 20 per cent from a year earlier.

Wells Fargo, the ninth largest US banking group, reported an 18 per cent increase in second quarter net profits to $147.4m, or $2.68 a share, from $124.4m, or $2.24, reflecting strong loan demand in the US. Net interest income rose to $531.5m from $482.1m while non-interest income jumped by 25 per cent to $211.7m.

The group had no medium or long term loans outstanding to developing countries at the end of the quarter. Short term loans to them totalled $153m, or 0.3 per cent of total assets. Restructured and non-accruing real estate loans, all in the US, totalled $1.2bn, or 3 per cent of total assets.

Continental Bank of Chicago reported a 6 per cent rise in second quarter net income to $64m, or $1.01 a share, from $60m, or 95 cents, a year earlier. Revenues rose to $236m from $277m.

Total assets were $31.8bn at June 30, down from $32.4bn a year earlier. Return on assets edged ahead to 0.83 per cent from 0.79 per cent. Corporate finance revenues totalled $151m in the latest quarter, up 12 per cent from $135m a year earlier.

The increase was due mainly to higher fees from loan syndication and distribution activities.

Demand for Macintosh computers lifts Apple

By Louise Kehoe in San Francisco

APPLE COMPUTER is confident that sales of its personal computer products will top $5bn in fiscal 1989 as demand for its latest Macintosh models continues to rise.

Third quarter results, reported yesterday, show a 26 per cent rise in revenues to $1.3bn, up from $993m. Reduced profit margins brought net income to $96.1m or 74 cents per share for the quarter, compared with $91.3m or 71 cents in the same period last year.

The stock market reaction to Apple's slowing earnings growth pushed the company's share price down by $1.50 to $39¼ in heavy trading.

"Throughout fiscal 1989 our product costs have been adversely affected by higher component costs, most notably dynamic random access memory [Dram] chips," said Mr John Sculley, Apple chairman. Earlier in the year Apple revealed that it had a surplus of Drams purchased at peak prices during last year's chip shortage.

Analysts said that Apple's margins were further reduced by a shortage of 80 megabyte hard disk drives, used primarily with its high performance Macintosh II models. Customers are purchasing systems without the drives rather than wait for Apple's suppliers to get them, analysts said.

Net income for the nine-month period was $293m or $2.28 per share against $292m or $2.24 per share, for the same period last year. Sales rose 34% compared with the last year's corresponding period to $3.9bn.

"As we enter the fourth quarter we see continued strong demand for the Macintosh IIcx and SE/30 around the world. *The good market acceptance* for these two products makes us confident that fiscal 1989 revenue will exceed $5bn," *said Mr Sculley.*

Dow falls for Marion's potent marketing allure

Anatole Kaletsky on a US merger

IT's all in the marketing. This old slogan, familiar from the heyday of the US consumer products companies when salespeople from Coca-Cola, Ford and Kellogg's took the world by storm, is becoming the unexpected battle cry of a quite different breed of international companies now vying for world domination.

Pharmaceuticals may be the quintessential science-based industry, where research and development costs absorb typically 10 per cent of revenues and every "consumer" has a doctor's degree. But marketing and sales forces, not research laboratories, have become the key competitive weapons in the intensifying battle for global market share.

This seems to be the main implication of the complicated two-stage merger deal formally signed yesterday between Marion Laboratories and Dow Chemical. More than any of the previous alliances in the *consolidating world pharmaceuticals* industry, this deal has put a clear – and unexpectedly high – value on the ability to sell new drugs.

What makes this deal unique is Marion's unusual structure. Marion is not a fully-fledged pharmaceuticals company that tries to discover and synthesise its own drug formulations. Its corporate strategy is described by analysts as "search and development."

It picks up licences for drugs that other companies have discovered, but do not wish to develop. It finishes off the clinical testing, wins government approvals and then puts its salesforce to work.

Until five years ago, Marion was a prosperous but relatively modest outfit, with a stock market value of only $300m and sales of less than $200m a year.

Then, through a combination of good luck and judgment, the company stumbled in the early 1980s on two drugs developed in Japan whose market potential nobody had begun to suspect. These drugs were Cardizem, a calcium channel blocker used for the treatment of heart disease and high blood pressure, and Carafate, an anti-ulcer drug which turned out to be an attractive alternative for patients who reacted badly to other ulcer treatments such as *Zantac and Tagamet.*

Although these drugs were *not* new, the anti-ulcer and cardiovascular treatments which they provided were just beginning to find acceptance among physicians, partly as a result of Marion's effective selling. Both markets suddenly took off at a compound annual rate of around 40 per cent. By 1987 Marion's market value had multiplied 20-fold in five years to $6bn.

However, by mid-1987 investors at large began to notice the dark cloud over Marion's future. Carafate had already lost its patent protection and Cardizem was due to go off-patent in November 1992. While Marion then had the cash to acquire other formulations from drug companies, there was nothing that seemed to match the promise of Cardizem and Carafate.

"To say that Marion did not have much would be an understatement. It had, and has, absolutely nothing in the pipeline," says Mr Hemant Shah, a pharmaceutical analyst at HKS & Co in Warren, New Jersey.

Why then is Dow Chemical now willing to pay what will amount to almost $4bn in cash and merge its own successful pharmaceuticals subsidiary, Merrell Dow, with Marion, in exchange for a 67 per cent stake in the combined group?

The answer seems to be threefold. First there is Marion's 2,000-strong sales force. Marion's sales staff will triple Merrell Dow's sales effort in the US, and turn a company which is much stronger overseas than it is in America into a globally balanced operation, which will rank about fifth in sales among US drug companies and in the top 10 worldwide, according to Mr Shah.

Second, Marion has a valuable capability for testing, refining and winning US licences for existing drugs. While Marion does no original research, it has spent heavily on developing and refining its existing products. Its development spending alone is higher than the R&D commitment of most drug companies.

According to Mr Sam Isaly, of pharmaceuticals consultants Mehta & Isaly, a worldwide shortage of development capacity is emerging as one of the biggest constraints on the drug industry's growth. Marion's capability in this should prove a very valuable asset.

Finally, there are the drugs Merrell Dow has discovered itself, which it will be able to push into Marion's development and marketing pipeline.

While Merrell Dow has no blockbusters, it has "a reasonable portfolio of new products," according to Mr Shah. Without Marion's US marketing strength, Merrell Dow itself would not have been a viable competitor in the consolidating drug industry of the next decade, he says.

R&D costs hurt Genentech

Louise Kehoe in San Francisco

GENENTECH, *the leading* US biotechnology company, saw second quarter earnings fall as it continued to spend heavily on new product development and marketing, despite flattening sales of its main product, a genetically engineered heart attack drug.

Second quarter earnings were $9.6m or 11 cents per share, against with $15.5m or 18 cents last year. Revenues, including from contract research, were $97.9m, up 9 per *cent from* $89.3m last year.

Net product sales were $79.1m, against $75.1 m a year ago. Genentech said sales of its heart attack drug, Activase, or tissue plasminogen activator (t-PA), were $48m, against $49.2m.

Sales of Protropin, a genetically engineered version of human growth hormone, were $31.1m, up from $25.9m in the year-ago quarter.

Genentech's research and development expenses increased from $32.8m in the second quarter of 1988 to $38.3m in the like period this year.

Marketing and administrative expenses also were up, from $24.2m to $32.1m, mainly due to increasing the size of the sales force for Activase marketing efforts.

For the six month period, net income fell sharply to $17m or 20 cents from $30.6m or 36 cents on revenues which rose to $189m from $163.7m.

Newsprint price fall hits Canadian forestry groups

By David Owen in Toronto

THREE LARGE Canadian forest products companies reported sharp downturns in quarterly earnings due to sagging newsprint prices and adverse currency fluctuations.

Second quarter income at Abitibi-Price, Noranda Forest and MacMillan Bloedel tumbled by 47 per cent, 17 per cent *and 28 per cent respectively.* Analysts attributed the magnitude of the decline at Toronto-based Abitibi to its particularly large exposure to the newsprint sector.

Abitibi - controlled by the Reichmann brothers' Olympia & York Developments - earned C$28.8m (US$24.2m) or 39 cents a share, against C$54.4m or 76 cents a year earlier. Sales dipped marginally to C$830.3m, from C$835.5m.

In the six months to June 30, income totalled C$55.1m or 74 cents on revenues of C$1.64bn, *compared with C$98.5m or* C$1.37 on unchanged revenues.

Second quarter profits at Noranda Forest, one of the Bronfman family's Brascan stable of companies, tumbled to C$59m or 55 cents from C$71m or 69 cents a year ago while revenues advanced to C$1.27bn from C$1.25bn in 1988.

In addition to the strong Canadian dollar and lower newsprint prices, the group was also hit by rising costs in its British Columbia operations.

For the six months to June 30, earnings dropped to C$117m or C$1.10 on revenues of C$2.47bn, from C$134m or C$1.29 on revenues of C$2.4bn.

Net second quarter earnings at MacMillan Bloedel declined to C$68.3m or 61 cents fully diluted, from C$94.5m or 85 cents in 1988. Revenues at the Vancouver-based company, owned 49.9 per cent by Noranda Forest, rose just over 1 per cent to C$862m from C$851.5m.

For the six-month period, profits were C$141.7m or C$1.27 *a share on sales of C$1.67bn,* against C$186.1m or C$1.67 on sales of C$1.65bn a year earlier. The company said pressure on newsprint prices was offset by pulp price increases.

Alcan ahead at $513m midway

Robert Gibbens in Montreal

ALCAN ALUMINIUM of Canada is seeing signs of weakness in some major North American markets for primary and semi-fabricated aluminium, says company chairman Mr David Morton.

Demand in other parts of the world continues to grow, though at a slower rate

Alcan's sales volume for the second quarter of 1989 was generally good. Volume for the last half was US$4.6bn against $4.14bn a year earlier.

First half net income was $513m or $2.21 a share, up from $418m or $1.69 a year earlier.

In the second quarter, sales were US$2.3bn against $2.19bn and net income $244m or $1.05 a share against $248m or 99 cents a year earlier.

The latest period includes a special gain of 29 cents a share from a transaction related to *the Japanese affiliate Nippon* Light Metal.

Discounts slow Weyerhaeuser

By Karen Zagor in New York

WEYERHAEUSER, the US forest products group, yesterday reported a modest advance in second quarter earnings, *indicating weakness in the US* paper industry.

For the three months to June 25, net income rose 3 per cent to $154.9m or 73 cents a share from $150.7m or 72 cents. Revenues rose 8 per cent at $2.64bn against $2.45bn.

For the first half, net income advanced 14 per cent to $303m or $1.43 from $265.4m or $1.26 on revenues up 8 per cent to $4.97bn.

Mr George Weyerhaeuser, president and chief executive, said the newsprint business was hurt by discounting in the western US markets, lower export prices and increased costs for material and energy He added that pricing in the pulp and paper markets remained strong.

In forest products, high demand for western products *in domestic and overseas markets* was partly offset by weakness and soft pricing in the eastern and southeastern states.

The company said its real estate group posted improved earnings with first-half results more than double those of the 1988 period.

● Scott Paper, the world's largest producer of toilet tissue, paper towels and paper napkins, saw net income drop 5 per cent to $71.5m in the second quarter to July 1. Earnings per share were 93 cents, against 98 cents a year earlier. Sales rose 7.7 per cent to $1.25bn.

For the first half, net income advanced 5.8 per cent to $158.0m or 40 cents from $149.3m or 37 cents on sales ahead 10.2 per cent to $2.52bn *from $2.29bn.*

Mr Philip Lippincott, chairman and chief executive, said: "Our US tissue business had *excellent* results in the second quarter. Scott's printing and publishing papers business also showed improvement, although well below expectations."

The company's performance was hit by higher pulp and other manufacturing costs, a difficult environment in Mexico, slow progress in implementing Scott's food-service business strategy and a loss of earnings due to last year's sales of Scott's interest in Brunswick Pulp and Paper company.

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INTERNATIONAL CAPITAL MARKETS

Caribbean hopes high for unified exchange

Canute James on Caricom's plans to set up a regional capital market

Members of the Caribbean Economic Community (Caricom) have agreed to establish a regional capital market, part of efforts to integrate their economies and create a common market by 1993.

At their annual summit in Grenada this month, the leaders of the 13-nation community agreed to a Jamaican proposal for a single regional market. Its structure and operations are to be determined by a committee of central bankers from community countries.

Mr Seymour Mullings, Jamaica's Finance Minister, said a regional stock exchange would lead to enhanced foreign exchange flows and new investments in the region. The central bankers would determine how to establish viable means for transacting deals in equities, bonds, debentures, options and futures.

The Caribbean community's experience in capital markets is limited to existing stock markets in Jamaica, Trinidad and Tobago and Barbados. None of these exchanges lists companies in the other countries.

Community leaders say an immediate start on the regional market can be made with exchanges cross-listing each other's shares.

The new market would aim to increase the flow of capital for investment within the common market and improve operations of existing stock exchanges through an increase in the volume of transactions.

But regional governments are hoping it will also provide alternative options for investment and stem the flight of capital, a perennial problem for the region's economies.

There are several obstacles to be cleared before regional trading can start. It is now impossible for investors to buy and sell shares promptly within the community, because of differing foreign exchange regulations and the inconvertibility of most currencies in the community.

Mr Byron Blake, director of economics in the Caricom secretariat, said there were also likely to be concerns over the possibility of currency devaluations, and how these would affect the value of shares in some countries.

There would also be a need for changes to conditions governing foreigners' stockholdings. Mr Mullings said that one problem was the alien landholding regulations in Trinidad and Tobago, which controlled the way in which foreigners could hold stock in the country.

The Trinidad and Tobago Government said recently it was examining possible changes to the legislation which would make it easier for foreigners to purchase and sell property.

Disparity in company laws will also have to be refined and legislation updated to streamline regulations for the disclosure of information, auditing and accounting methods and rules governing mergers and takeovers.

There will also have to be agreements between the community countries on double taxation treaties.

Less challenging will be the installation of telecommunications facilities to link the countries across the 3,000-mile breadth of the Caribbean.

The first decision which central bankers face is how to use the three existing exchanges. They have to determine whether to use an association of existing and planned stock exchanges or merge them into a single system.

Another grey area is the level of participation of companies and investors from the other Caricom countries which do not have and are not planning to establish national stock exchanges. One option which will be discussed is the establishment of a regional capital market, separate from the national stock exchanges, on which companies in the three countries and those without markets would be listed.

What has already been agreed is that the regional capital market will be managed by the private sector and not governments, although governments will provide regulation through a regional securities commission involving central bankers and finance ministers.

But while the region's governments, central bankers, company chairmen and investors can deal with the mechanics of a regional market, they are likely to find the cultural problems more intractable.

"The greatest difficulty in getting this going is that companies in the Caribbean are not in the habit of going public, especially in the smaller countries," said Mr Blake.

US thrift industry owns 8% of junk bond sector

By Norma Cohen

THE US thrift industry owns about 8 per cent of the total US junk bond market, according to a report by Alexander Sheshunoff, a Texas-based consulting firm specialising in the thrift industry.

The consulting firm used data compiled by the Federal Home Loan Bank Board to make public the first specific information about the beleaguered industry's holdings in speculative grade debt securities.

Under legislation now coming before Congress, that holding – totalling $14bn of the approximately $190bn market – would have to be sold off within the next two years. An alternative bill under consideration by the US Senate would limit thrifts' holdings to about 6 per cent of assets.

Spreads on junk bonds relative to underlying US Treasuries have widened to their widest levels in years in recent months, partly because of fears of wholesale dumping of securities by thrifts.

According to the study, eight Southern California savings and loans hold $7.8bn in junk bonds – just over half of all the industry's investments in these securities.

Among the largest holders are Columbia Savings and Loan Association with 33.86 per cent of its assets in junk bonds, Western Empire Savings and Loan with 30.47 per cent, Imperial Savings and Loan Association with 11.58 per cent and Centrust Savings Bank with 12.38 per cent.

The US thrift industry is subject of a government bailout which may cost more than $250bn over the next 30 years.

The industry's holdings in junk bonds have been particularly controversial because of the speculative nature of the investment and because the bonds represent loans to corporations which were not intended to benefit from the indirect federal assistance given to the industry. The industry was initially intended to make funds available for residential mortgages.

Rothschild forms Italian management buy-out fund

By John Wyles in Rome

THE Rothschild Group, the banking and investment concern, yesterday marked the launch of its new Italian subsidiary, Rothschild Italia, by announcing a L112.5bn ($81m) fund for financing management buy-outs and other investments in small- and medium-sized Italian companies.

The fund, Old Court Italian Ventures, will be Guernsey-based. It will be aimed over its 10-year life at institutional and private investors ready to accept a high degree of risk.

Its advisers will be Europa Investment Sapa, an Italian investment company created late last year by a team of five former members of Citibank's corporate finance team in Milan.

Mr Richard Katz, managing director of Rothschild Italia, said yesterday that the fund and the opening of a full subsidiary in Italy after years of having only a representative office in Rome confirmed the group's "bullishness" about Italy.

With the approach of the European Community's single market it saw growing opportunities for corporate finance business, including mergers and acquisitions, international equity issues and privatisation.

The Italian company also aims to use the Rothschild Group's international reach to help foreign companies wishing to enter the Italian market. Mr Katz said that big foreign multinationals were attracted by a market of 55m people in which the current level of investment was generally low.

He added that the investment fund would aim to take advantage of the many opportunities existing among small- and medium-sized family companies in Italy in need of venture capital and stronger management.

"Italy has been left out of the investment programmes of a great number of international institutions and we believe the weight of money is there for this type of investment," he said.

Japanese bank may securitise municipal bonds

BANK OF Yokohama may this month securitise its portfolio of municipal bonds. If the move goes ahead it would be the first time municipal bonds, known as deed bonds, were securitised in Japan, Reuter reports.

The Finance Ministry announced this week it would allow securitisation in order to help Japanese banks achieve the capital adequacy standards proposed by the Bank for International Settlements (BIS).

Bank of Yokohama plans to sell between Y2bn and Y3bn ($14m and $21m) in bonds to regional banks and to life and non-life insurance companies. The bank will seek shareholder approval for the move.

Deed bonds have relatively low liquidity and there is a small secondary market for them. The ministry has allowed outright sales of these municipal bonds to institutional investors.

The BIS committee has ruled that banks operating internationally should have capital amounting to 8 per cent of risk assets by 1992.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on July 18

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
B.F.C.E. 7 92	150	96⅛	96⅝	-0¼	-0¼	8.53
B.F.C.E. 9¼ 95	150	102⅝	103⅛	-0¼	-0⅜	8.62
Brit. Tel. Fin. 9⅝ 98	250	103¼	103¾	-0¼	-0⅛	8.80
BP America 9¾ 99	250	†106	106½	-0¼	-0⅞	8.75
Canada 9 96	1000	103⅜	103¾	-0½	-0⅜	8.27
Canadian Pac 10¾ 93	100	†102	102½	0	0	10.01
C.C.C.E. 9⅛ 95	300	102⅝	103⅛	-0⅛	0	8.54
C.N.C.A. 9⅝ 93	150	101⅞	102⅜	-0¼	-0⅜	8.78
Credit National 8⅞ 93	200	98⅞	99⅛	-0¼	-0¼	8.55
Credit National 7⅞ 92	100	96⅞	97⅜	-0¼	-0¼	8.56
Credit National 9½ 92	160	102	102½	-0⅛	-0⅛	8.68
Dai-Ichi Kan 9⅞ 92	150	101⅞	102⅛	-0⅛	-0⅛	8.85
Denmark 7⅞ 92	500	96¼	96¾	-0¼	0	8.64
E.E.C. 7 91	100	96⅞	97⅜	-0¼	-0⅛	8.47
E.E.C. 7¼ 93	250	96¼	96⅝	-0⅛	0	8.43
E.E.C. 10 93	140	104⅞	104⅝	-0⅛	-0¼	8.46
E.I.B. 9⅝ 97	150	104⅛	104½	-0⅛	-0⅛	8.60
Eurofima 10⅛ 93	100	†105	105¾	-0⅛	-0⅛	8.42
Elec. De France 9 98	200	101⅞	102⅛	-0⅜	-0⅜	8.67
Elec. De France 9½ 99	200	104⅜	104⅞	-0¼	-0⅛	8.76
Finland 7¾ 97	200	94⅞	95¼	-0⅛	0	8.82
Finland 9 96	250	101⅞	102¼	-0¼	-0½	8.62
Finn.Exp.Cd. 8½ 92	200	99⅞	100⅛	-0¼	-0⅛	8.57
Finn. Exp. Cd. 9⅞ 95	200	102½	102⅞	-0⅜	-0¼	8.79
Finn. Exp.Cred. 10⅞ 91	100	102⅞	103⅛	+0⅛	0	8.89
Ford Motor Credit 8 91	250	†98⅝	99⅛	-0⅛	+0⅛	8.70
Gen.Elec.Cap.Corp. 9 93	500	†101⅛	101⅞	-0⅛	+0⅛	8.51
Gen.Elec.Cap.Crp. 10 1/2 91	300	102⅞	103⅜	0	0	8.36
Gen. Mtrs. Corp. 9⅞ 92	200	100⅝	101⅛	-0¼	-0⅜	8.78
IBM Credit Corp. 8⅞ 91	250	100⅜	101⅛	-0⅜	-0⅛	8.40
IBM Credit Corp. 9½ 92	250	102⅛	102⅝	-0⅛	-0⅛	8.35
IBM Credit Corp. 10 92	200	103⅝	104⅛	-0⅛	-0¼	8.37
Italy 9⅞ 95	1000	103¾	104⅛	-0⅛	+0⅛	8.63
Italy 9⅝ 99	1000	104⅞	105¼	-0¼	-0⅜	8.80
Japan Dev. Bank 10 96	200	106¼	106⅝	-0¼	-0⅛	8.69
L.T.C.B. of Japan 9¼ 92	200	101	101½	-0⅜	-0⅜	8.61
Metropolis Tokyo 9½ 93	200	102⅞	103⅜	-0⅜	-0½	8.52
Nippon Tel.&Tel. 9⅝ 98	250	103½	103⅞	-0⅜	-0⅜	8.78
Norway 8¾ 93	500	100⅞	101⅛	-0⅜	-0⅛	8.47
Portugal 8¾ 91	300	—	—	—	—	—
Prudential Crp. 8⅞ 94	125	100⅛	100⅝	-0¼	-0⅛	8.62
Sumitomo Bank 9⅝ 92	150	†101⅞	102¼	-0¼	-0¼	8.85
Sweden 7 91	250	97¼	97¾	+0¼	+0⅛	8.25
Sweden 8¾ 96	200	100½	101	-0⅛	-0⅛	8.58
Sweden 8½ 92	200	†99½	100	-0⅛	-0⅛	8.58
Toyota 9½ 91	200	101⅞	101⅞	-0⅜	-0⅛	8.74
Victorian Rep 11⅝ 92	150	106⅝	107⅛	-0⅛	0	8.71
World Bank 7 92	300	†96¼	97¼	-0⅜	-0⅛	8.33
World Bank 9 97	300	102	102½	-0¼	-0¼	8.60
World Bank 9 93	300	101⅞	102⅛	-0¼	-0¼	8.38
World Bank 9⅛ 98	300	103⅜	103⅝	-0¼	-0⅜	8.67
World Bank 9⅝ 99	500	105⅜	105⅞	-0¼	-0⅜	8.70
World Bank 9¾ 96	300	105⅛	105⅝	-0¼	-0¼	0.42

Average price change... On day -0¼ on week -0⅜

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bk. 6 94	200	95⅞	96⅛	0	+0⅛	6.87
Austria 6¾ 99	750	99⅛	99⅜	-0⅛	-0⅛	6.87
Bank of Tokyo 5¾ 93	100	95⅜	96	-0¼	0	7.11
Commerzbank o/s. 5⅞ 93	300	95⅞	96	+0¼	+0¼	6.77
Credit Foncier 6¾ 99	500	99	99¼	-0⅛	-0⅛	7.87
Degussa Int. 6⅞ 97	200	96⅞	97⅛	0	+0⅛	6.66
E.I.B 5½ 98	150	91⅛	91⅞	0	+0⅛	6.81
E.I.B. 6¼ 99	600	95⅞	96¼	-0⅛	-0⅛	6.86
E.I.B. 6⅛ 96	300	96½	97¼	0	+0⅛	6.70
E.I.B. 6½ 99	300	97	97⅜	-0⅛	-0⅛	6.87
E.I.B. 6⅞ 95	300	99⅞	100⅛	-0¼	-0⅛	6.81
Euro.Coal & Steel 5⅞ 97	175	93⅞	94⅛	0	-0⅛	6.91
Eurofima 6¼ 96	100	97⅜	98¼	+0¼	+1½	6.62
Elec De France 5¾ 97	300	93⅞	94⅛	0	+0⅜	6.73
Forsmark Krtg. 5⅞ 93	200	93⅞	94	-0⅛	-0⅛	7.18
Hydro-Quebec 6¾ 99	300	99	99¼	-0⅛	-0⅜	6.87
Japan Dev. Bk. 5¾ 95	300	94⅛	94⅞	+0¼	0	6.54
Japan Finance 5¾ 97	100	92⅞	93⅛	-0¼	-0⅞	7.01
Ireland 6½ 97	300	96½	97	0	-0⅛	7.05
Malaysia 6¾ 94	150	97⅞	98⅜	-0⅛	-1½	6.74
Nat. West BK. PLC 6 98	300	93⅞	94⅛	0	+0⅛	6.97
N.H.L. Finance 6¼ 95	200	†95⅞	96⅛	0	+1	7.05
Nippon Telg. & Tel. 6 95	400	96⅞	97⅜	0	0	6.29
Oesters. Kontbk. 5 93	300	94⅞	95⅜	+0⅛	+0⅛	6.42
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 6⅛ 91	80	101⅛	101⅝	-0⅛	-0¼	5.34
Canada 5⅝ 93	80	101	101⅛	0	-0¼	5.30
Eurofima 5 1995	20	98	98⅜	-0⅛	-0¼	5.38
E.I.B. 4⅞ 93	30	98⅛	98⅜	-0⅛	-0¼	5.41
Ireland 5⅛ 93	30	99⅛	99⅜	-0⅛	-0⅛	5.27
Norway 5⅛ 95	50	98⅞	99⅛	-0⅛	-0⅛	5.33
Sweden 4⅝ 93	50	97⅛	97½	-0⅛	-0½	5.40
World Bank 5⅛ 98	10	97⅞	98⅜	-0⅛	-0⅜	5.42
World Bank 7 94	20	106⅛	106⅝	-0⅛	-0⅜	5.38

Average price change... On day -0⅛ on week -0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. 11⅝ 95 £	100	98⅞	99⅛	0	+0⅛	11.87
Aegon 7⅛ 92 Fl	100	101⅝	102⅛	+0⅛	+0⅛	7.75
Alg. Bk. Ned. 5⅞ 93 Fl	200	95⅛	95⅝	-0⅛	+0½	7.18
Austria 7½ 94 ECU	100	96⅞	96½	-0¼	-0¼	8.49
Bk.Nova Scot. 14⅜ 90 A$	75	95⅝	96⅝	0	+0⅜	17.61
Barclays Aus. 13½ 91 A$	100	95⅝	96⅛	0	+0⅛	15.72
Belgium 8⅛ 94 Ecu	150	97⅞	98⅛	-0⅛	0	8.61
BP Capital 9¾ 93 £	100	94⅛	94⅝	-0⅛	+0⅝	11.66
British Airways 10 98 £	100	92⅞	93⅛	-0⅜	+1⅜	11.34
Buhrmann-Tet. 6⅞ 93 Fl	100	95⅞	96⅛	+0⅛	+0⅛	7.57
Comm. Bk. Aust. 12⅝ 93 A$	100	†93⅞	94⅛	0	+0⅛	14.74
Cr.Local France 9¼ 92 Ecu	100	101⅞	102⅜	0	+0⅛	8.38
Dent. Bk.Aus. 13⅜ 93 A$	125	96⅞	97⅜	0	+0⅝	14.23
Deutsche Bk.Fin. 15 94 A$	100	102	102⅞	0	+0⅛	14.30
Eastman Kodak 13 90 A$	100	95⅝	96⅛	+0⅛	+0½	17.32
E.I.B. 7 96 LFr	100	†96¾	97⅛	+0⅜	+0⅛	7.54
E.I.B. 9 99 Ecu	150	101⅞	102⅛	0	+0⅛	8.70
Eurofima 7⅞ 94 Ecu	100	96⅛	97⅛	0	+0½	8.46
Export Dv.Crp. 8⅞ 92 Ecu	100	100⅜	100⅞	-0⅛	+0⅛	8.46
Fed.Bus. Dv.Bk. 9⅞ 92 C$	75	†99	99½	-0¼	-0¼	10.04
Fed.Bus. Dv.Bk. 10½ 93 C$	50	100⅞	101⅜	-0⅛	0	10.14
Ferrv. Stato 7⅞ 93 Ecu	100	96⅛	97⅛	0	0	8.68
Ford Cr.Can. 10⅞ 93 C$	100	†100⅞	101⅜	-0⅛	-0⅛	10.31
Ford Cred.Can. 10⅞ 96 C$	125	102⅝	103⅛	-0⅛	-0¼	10.23
Ford Cred. Fund. 10⅛ 93 £	60	96⅛	96⅝	-0⅛	+0⅛	11.79
Ford Mtr.Cred. 7⅞ 93 Ecu	100	97	97½	0	-0⅛	8.78
G.M.A.C. Canada 11 3/4 94 C$	100	104⅛	104⅝	-0⅛	0	10.51
Heineken 7⅝ 94 Fl	150	102⅛	102⅝	+0⅛	+0⅛	7.57
Hydro-Quebec 11 99 C$	400	104⅛	104⅞	-0¼	-0¼	10.20
Lloyds Bank 10⅛ 98 £	150	92⅞	93⅛	-0¼	+0⅞	11.52
Lloyds Bank 11⅛ 98 £	100	96⅛	96⅝	-0⅛	+0⅛	12.01
Montreal Tst. 10⅞ 93 C$	100	†100⅝	100⅞	-0¼	+0⅛	10.54
Morgan Gntr. Tst. 11 91 C$	150	†100⅛	100⅝	-0⅛	-0¼	10.51
Nat. Aus. Bk. 14⅝ 94 A$	100	99⅛	99⅝	+0⅛	-0⅜	14.87
New Zealand 9½ 93 £	100	92⅞	93⅛	-0⅛	+0⅝	11.87
Phillips Gloeil. 6 93 Fl	300	95⅞	96⅛	+0⅛	+0⅛	7.13
Privatbanken 7½ 94 LFr	500	†98	99	0	-0⅛	7.88
Royal Bk.Scot. 10⅝ 98 £	125	94⅞	95⅜	-0⅛	+0⅞	11.57
Saskatchewan 9⅞ 91 C$	150	†99	99½	-0¼	-0¼	10.30
Saskatchewan 10⅛ 93 C$	200	100⅛	100⅝	-0⅛	0	10.14
State Bk.NSW. 13⅞ 93 A$	100	96½	97⅛	0	+0⅝	14.86
Sweden 15 94 A$	100	102⅞	103⅛	+0⅛	+0⅞	14.01
Toyota Mtr.Cr. 11⅞ 92 C$	150	102⅞	102⅞	-0⅛	-0⅛	10.24
World Bank 13⅛ 92 A$	100	100⅞	101	+0⅛	+0⅞	13.10
Zentralpk. 13⅛ 93 A$	75	†97⅛	97⅝	+0⅛	+0⅛	14.08

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic. Bld 94 £	.08	99.92	99.97	18/07	13.08
Bank of Greece 99 US	0¼	99.70	99.81	8/09	10.62
Belgium 97 US	0	100.19	100.29	19/08	9.38
Chelt.& Gloucester 94 £	.063	99.88	99.93	30/08	14.06
Credit Foncier 98 US	.063	100.24	100.34	20/10	10.16
Dresdner Finance 99 DM	.031	99.92	100.02	27/07	6.59
EEC 3 92 DM	0	100.56	100.67	20/08	5.63
Halifax BS 94 £	.1	100.00	100.05	6/08	12.97
Invt. in Industry 94 £	0⅛	100.12	100.22	24/08	14.06
Leeds Perm. B/S. 94 £	0⅛	100.13	100.18	13/10	14.06
Midland Bank 01 £	.1	98.40	98.73	11/08	12.97
Milk Mkt. Brd. 5 93 £	0⅛	100.01	100.06	29/09	14.31
New Zealand 5 97 £	.07	99.99	100.09	22/08	13.19
State Bk. New. 98 US	.188	100.40	100.50	11/08	9.87
Woolwich Equit.BS. 93 £	0⅛	100.26	100.31	13/10	14.06
Woolwich 5 95 £	0⅛	100.00	100.05	22/08	13⅛

Average price change... On day 0.00 on week -0.01

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Alcan 6⅛ 02 US	8/87	62	116⅞	117⅞	+0⅛	7.02
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available—previous day's price.
† Only one market maker supplied a price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

Wider trade deficit drags Treasuries lower

By Janet Bush in New York and Katharine Campbell in London

NEWS OF a wider than expected US trade deficit in May dragged US Treasury bond prices down yesterday but losses were limited by a relatively resilient performance by the dollar and a more pressing interest in today's June consumer prices release.

GOVERNMENT BONDS

At midsession the benchmark long bond was quoted around ¾ point lower for a yield of 8.15 per cent. Earlier it had traded more than ¼ point lower.

The $10.2bn trade shortfall in May compared with forecasts of a $9bn deficit and a revised trade gap of $8.3bn in April. The dollar fell to lows of Y141.05 and DM1.8885 after the trade announcement but then showed signs of recovering by midsession in New York, when it was quoted at Y141.50 and DM1.8920.

The bond market is more concerned with today's consumer prices release and tomorrow's Humphrey Hawkins testimony to Congress on monetary policy by Mr Alan Greenspan, chairman of the US Federal Reserve.

Interest rates remain the key to sentiment in the bond market, which has already fallen to yield levels which discount a further easing move by the Fed. Fed funds again traded solidly at 9¼ per cent yesterday.

The notably limited reaction of the bond market to yesterday's trade figures reflected a relatively benign interpretation. The rise in imports to record levels in May was attributed, to a large extent, to oil and capital goods imports and to distortions in trade flows due to dock strikes overseas.

The 0.9 per cent decline in exports was seen as further evidence of weakness in the manufacturing sector, which might yet give the Fed room to ease conditions.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	105-24	+1/32	10.91	11.15	11.53
		9.750	1/98	97-04	-2/32	10.26	10.37	10.72
		9.000	10/08	95-29	-8/32	9.35	9.41	9.70
US TREASURY *		9.125	5/99	106-23	-8/32	8.12	7.98	8.36
		8.875	2/19	107-31	-11/32	8.18	8.01	8.32
JAPAN	No 111	4.600	6/98	96.0494	+0.176	5.25	5.21	5.49
	No 2	5.700	3/07	108.2697	+0.297	5.03	5.05	5.17
GERMANY		7.000	2/99	102.0000	-0.100	6.70	6.63	6.74
FRANCE	BTAN	8.000	1/94	96.7847	-0.174	8.67	8.86	8.86
	OAT	8.125	5/99	95.8500	-0.140	8.80	8.57	8.85
CANADA *		10.250	12/98	105.1300	-0.675	9.41	9.26	9.44
NETHERLANDS		7.000	3/99	99.3200	-0.380	7.09	7.05	7.10
AUSTRALIA		12.000	7/99	92.0729	-0.281	13.47	13.46	13.85

London closing, *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal
Technical Data/ATLAS Price Sources

THE Australian bond market seems inured to bad news on the current account front, so yesterday's A$1.63bn deficit in June – towards the upper end of economists' forecasts – did not provoke a significant reaction.

The September 10-year futures contract, which opened at 86.59, was only five basis points weaker by the close, although traders said prices had been quite volatile.

"Exit Australia," a dismal report from Citicorp Scrimgeour Vickers published today advising investors to sell all before the Australian dollar sheds 20 per cent of its value in the next month or two (their worst-case assumption), was shrugged off by local bond dealers. Their attention is firmly fixed on next Wednesday's consumer price index.

THE UK gilt-edged securities market was largely forgotten as attention focused on the US market and the dollar. Turnover was lacklustre, as weekly transport difficulties again overtook the market. Even the modest signs of foreign buying appetite in recent days dried up.

The public sector borrowing requirement for the month of June – well above expectations – had a mildly negative effect on sentiment. It was taken as an early suggestion that the budgetary surplus for this fiscal year may be more modest than originally forecast.

On Liffe, the September futures contract finished ½ point down on the day at 95-27.

BNP C$100m deal heads weak list of new issues

By Andrew Freeman

TRAIN STRIKES and trade figures dominated thin activity on the Eurobond markets yesterday. In London many traders left early to try to beat the extended rush hour, while European interest was mild after the US trade data and ahead of today's US consumer price index figures.

INTERNATIONAL BONDS

New-issue business was subdued and the few deals *launched had no more than* average receptions.

Late in the day ScotiaMcLeod tapped the Canadian dollar sector when it announced a C$100m five-year deal for Banque Nationale de Paris (BNP). *On Monday* Bankers Trust issued a C$150m five-year deal for Banque Française du Commerce Extérieure (BFCE), the state-owned French trade bank.

The BNP issue had been widely expected, but there was considerable surprise when the terms were relayed. A coupon of 10⅛ per cent and an issue price of 101½ gave a spread *against Canadian government* bonds of around 57 basis points. The BFCE paper was then trading at a spread of 45 basis points, considerably tighter than its launch spread of 53 basis points.

One confused syndicate manager said: "Given the limited demand for even sovereign-quality paper in this sector, the spread for a bank name should have been much more generous, perhaps by as much as ¼ point."

Doubts about the terms saw the paper slip almost immediately outside 1⅞ per cent fees, *to trade at less 1.95 bid.* The lead manager was forced to buy some bonds back from the market, but said the issue had made a steady start in tricky market conditions. It is understood the proceeds were *swapped into floating-rate US* dollars, but the lead manager would not comment.

Credit Suisse First Boston brought a L100bn issue for Merloni Overseas, a subsidiary of the Italian white goods producer. The 10-year bonds offer a 9 per cent coupon and are convertible into both ordinary and savings shares of the parent company.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
CANADIAN DOLLARS						
Bqe Nationale de Paris(a)◆	100	10⅛	101½	1994	1⅞/1¼	ScotiaMcLeod
NEW ZEALAND DOLLARS						
Commonwealth Bank Australia◆	60	13¾	102	1994	2/1½	Hambros Bank
LIRE						
Merloni Overseas(b)§◆	100bn	9	100	1999	2½/1½	CSFB
GUILDERS						
LKB Baden-Wuerttemberg(a)◆	200	7⅛	101½	1994	1⅞/1¼	Amro Bank
YEN						
Skopbank(c)◆	3bn	(c)	100⅞	1990	⅞/½	Mitsubishi Finance
STERLING						
Land Securities(d)§◆	175	9⅜	100	2004	2½/1½	J. Henry Schroder Wagg
US DOLLARS						
Kajima Corp.(e)‡◆	400	3⅞	100	1993	2¼/1½	Daiwa Europe
Iwatani Int.(e)‡◆	300	3⅞	100	1993	2¼/1½	Nomura Int.
SWISS FRANCS						
Daiei Finance Inc.(f)★★§◆	200	Zero	100	1994	1⅝	Citicorp Investment Bank

★★Private placement. ‡With equity warrants. §Convertible. ◆Final terms. a) Non-callable. b) Call from 1990 at 105 declining by 1% p.a. c) Launched in two tranches one of Y2½bn paying 5½%, and one of Y500m, paying 7%. Redemption linked to Nikkei stock index. d) Coupon indicated 9¼-9½%. Non-callable for 5 years. Exchange option 5-10 years into non-convertible 10¾% bond due 2004. e) Coupon cut by ½% from indication. f) Coupon cut by ½% from indication. Yield to put 3.885% (indication 4.22%).

CSFB had conducted extensive pre-placement on the issue, which followed a roadshow by the company two weeks ago. The bonds were offered by CSFB at their par issue price yesterday, while away from the lead manager the paper was quoted at 99 bid.

Hambros Bank was the lead manager of a NZ$60m five-year deal for the Commonwealth Bank of Australia which came with a 13¾ per cent coupon and was priced at 102.

There was some demand for the paper which was bid on *fees at less 2* by Hambros. Elsewhere the bonds were bid at less 1.92. The proceeds were swapped into floating-rate Australian dollars.

In Switzerland yesterday Warburg Soditic set an initial SFr75m tranche as secondary trading began in its 7½ per cent five-year deal for Control Securities Finance, part of the UK property and leisure group.

The bonds closed at 99½ bid, against their par issue price. In the grey market the paper was around less 1½ bid.

Nikko sets up Tokyo index fund for US

By Janet Bush

NIKKO SECURITIES International, the US arm of the Japanese securities house, yesterday announced the launch of the first mutual fund for US investors, registered with the *Securities and Exchange* Commission and indexed to the Japanese stock market.

The Nikko Japan Tilt Fund is open-ended and seeks to outperform the average annual return of the Tokyo market as *measured by Topix, the Tokyo* stock price index. Minimum investment in the fund will be $50,000.

Indexed or passive *investing*, in which funds seek to replicate as closely as possible a key stock market index, such as the Standard & Poor's 500, is already extremely popular within the US, where it is estimated that the top 200 pension funds have more than $200bn invested in this way.

Nikko Securities, which claims to have pioneered index investing in Japan, has already launched Japanese index *funds for Japanese* as well as European investors.

Mr Hideo Suzuki, president of Nikko International, said: *"The Nikko Japan Tilt Fund* offers US investors the opportunity to diversify into the Japanese market by taking advantage of Nikko's expertise in computerised investing."

The fund will typically consist of between *150 and 200* stocks and will be run using a computerised risk and return model developed by Nikko in Japan in conjunction with Barra, an international investment consulting firm.

Indian bank to borrow Rs1.3bn

By R.C. Murthy in Bombay

COMMERCIAL foreign borrowings planned for this year by the Industrial Development Bank of India will total more than Rs1.3bn ($79.7m), the state-owned bank *has announced.*

The bank, which has a loan portfolio in excess of Rs156bn, provides funds for new industries.

Another Lebanese bank falls foul of French authorities

By George Graham in Paris

THE Bank of France has named a judicial administrator for Lebanese Arab Bank, the third Lebanese-controlled bank to run into trouble in France within four months.

Lebanese Arab Bank has been in difficulties for some weeks and the Lebanese central bank is believed to have tried to encourage other Lebanese-owned banks in Paris to come to its rescue.

The French banking authorities said yesterday that about FFr240m ($37m) of loans on the Lebanese bank's total balance sheet of FFr1.2bn appeared to be at risk and required provisioning, and that a capital injection estimated at between FFr190m and FFr200m would be needed to fill the shortfall.

The collapse follows swiftly on the heels of United Banking Corporation, formerly the Saudi Lebanese Bank, which had its banking licence withdrawn in May after an apparent fraud added to the bank's overlending to a number of high-risk countries and left it *needing an estimated FFr400m* capital injection to meet the requirements of French banking supervisors.

Two months earlier Banque de Participations et de Placements was closed down by the Bank of France with a deficit estimated at FFr200m. This followed the collapse of the Tamraz group in Lebanon, which had controlled it and which was its main debtor.

The French authorities have repeated their belief that there is no generalised problem with Lebanese or Arab-controlled banks, although other institutions have been increasingly nervous since the collapse of Al Saudi Banque last year with losses of more than FFr2.2bn.

The Commission Bancaire, the supervisory authority, is understood, however, to have ordered two other Lebanese banks to increase their capital bases.

Lebanese Arab Bank has long been on the Commission Bancaire's alert list: in its 13-year life it has been inspected 10 times, compared with an average of one inspection every three years for other banks. One set of disciplinary proceedings was completed in January after the bank's shareholders injected FFr110m of fresh capital last year, and a further disciplinary case was opened last Thursday.

No other French banks are among Lebanese Arab Bank's mainly non-resident creditors. Its deposits are mostly in foreign currency and therefore not covered by the French banking association's deposit guarantee scheme.

Moody's fixes rating for Hungarian state bonds

By Norma Cohen

THE National Bank of Hungary has been assigned its first-ever credit rating, a low investment-grade rating of Baa2 on its foreign currency bonds by Moody's Investors Service.

The rating, which affects about $2.1bn of outstanding securities, largely reflects Moody's expectation that the current political transformation from a Communist single-party state to a multiparty democracy will continue to be smooth.

Moody's said that Hungary was better suited than any other country under Soviet influence to complete the shift to a market economy.

Hungary becomes the first Soviet bloc nation to earn a public credit rating of any sort on its debt. The rating does not apply to the country's approximately $17bn in bank loans.

In citing specific reasons for its optimism, Moody's noted that extensive consumer subsidies on many goods had been eliminated, bringing down the budget deficit to about 1.2 per cent of GDP in 1988. In addition, Hungary was witnessing the emergence of an entrepreneurial class within the private and co-operative sectors.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	Index No.	Day's Change	Day's High	Day's Low	Jul 17	Jul 14	Jul 13	Jul 12	Jul 11	Year ago
FT-SE 100 SHARE INDEX	2273.1	-1.8	2284.1	2268.4	2274.9	2273.7	2258.0	2256.7	2258.9	1844.6

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	5	91	10
Corporations, Dominion and Foreign Bonds	0	11	30
Industrials	333	321	944
Financial and Properties	103	152	405
Oils	29	10	54
Plantations	0	1	10
Mines	9	37	129
Others	70	60	130
Totals	549	683	1,712

FIXED INTEREST

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

LONDON TRADED OPTIONS

LATE INTEREST in stocks such as STC and Scottish & Newcastle lent colour to a generally quiet day on the London Traded Options Market yesterday, while British Petroleum and Beecham *provided a solid base for the* day's dealings.

Overall *market* business came to 36,268 contracts, made up of 25,646 calls and 10,622 puts. Trading in the option on the FT-SE 100 index amounted to 5,339 contracts, consisting of 2,710 calls and 2,629 puts, as the index fell back 1.8 points on the day to 2,273.1.

There was net opening of position in the index options of just over 900 contracts on both the call and put sides. The most active of the call series were the July 2,250s, which saw 737 contracts, of which roughly half represented opening of interest; the August 2,300s which attracted 342 contracts, and an opening of position of almost half that amount; and the September 2,200s, in which 315 contracts were reflected in opening of interest of equal amount.

The BP business was contained in 3,485 contracts, made up of 2,743 calls and 742 puts, with the open interest on the call side rising 969 to 40,639, and that on the put 611 to 17,236. A feature was the opening of more than 500 contracts on both the call and put sides of the January 300 option. The underlying share price was unchanged on the day at 305p.

Beecham, which fell back 1p to 628p on the underlying market, attracted 2,242 contracts, comprising 1,122 calls and 1,120 puts.

STC jumped into prominence in the latter part of the day, attracting 1,823 contracts, of which 1,717 were calls and only 106 puts. The price of the stock on the underlying market gained 11p on balance to 374p.

Most of the business was spread about the July calls. Lonrho and Racal Electronics were among other stocks to attract options attention, while Scottish & Newcastle, the subject of a late rise on the underlying market, attracted trading on 418 calls and 145 puts.

TRADITIONAL OPTIONS

- First Dealings Jul 10
- Last Dealings Jul 21
- Last Declarations Oct 12
- For settlement Oct 23

For rate indications see end of London Share Service

UK COMPANY NEWS

The BAT bid highlights the fragility of bank loyalty

Banque Paribas may back the Hoylake consortium

By David Lascelles, Banking Editor

THE POSSIBILITY that Banque Paribas will join the backers of the Hoylake consortium which is bidding £13bn for BAT Industries points to the fragility of loyalties in the banking world.

Of all French banks, Paribas was one of those with which BAT had the closest relations. Paribas obtained a listing for BAT on the Paris stock exchange in 1985, and has sponsored most of BAT's annual presentations to French investors since then.

"We were very disappointed by their announcement," said Mr Richard Desmond, BAT's corporate treasurer yesterday.

For its part, Paribas had to take into account the fact that it also has close relations with Sir James Goldsmith, who is both a client and co-investor in joint projects. Paribas said last night that it would continue for the time being to work with BATs, particularly in the area of supplying stock market information. But the future of the relationship would have to be decided once the bid situation became clearer.

A similar shift to the enemy camp was made by the other major commercial bank behind the bidding consortium, Bankers Trust. Last year, both Bankers Trust and Paribas were among the participants in a $2.2m revolving credit facility which was raised for BATs by a group of 32 international banks to buy Farmers Group, the US insurer. Bankers Trust also underwrote several other BAT facilities, was the paying agent for the Farmers bid, and helped with the restructuring of Amatil, its Australian associate.

To some extent, all these conflicting loyalties are inevitable for a company of BAT's size and wide geographical spread which has relationships with dozens of banks in many countries. For example, when BAT recently did a short term financing deal, there were no fewer than 72 banks in it.

Mr Desmond said that BAT had not been putting any overt pressure on banks to stay out of the enemy camp. "We're not going out and bellowing at people. That's not the way our relationships work," he said. But clearly banks thinking of joining Hoylake will run the risk of losing BAT business in a hotly competitive market. "We'd be most distressed, and it would have an effect on our future relationship," he said.

However, Mr Desmond said that far from having to call on banks' loyalty, he had received many calls from bankers who were keen to help.

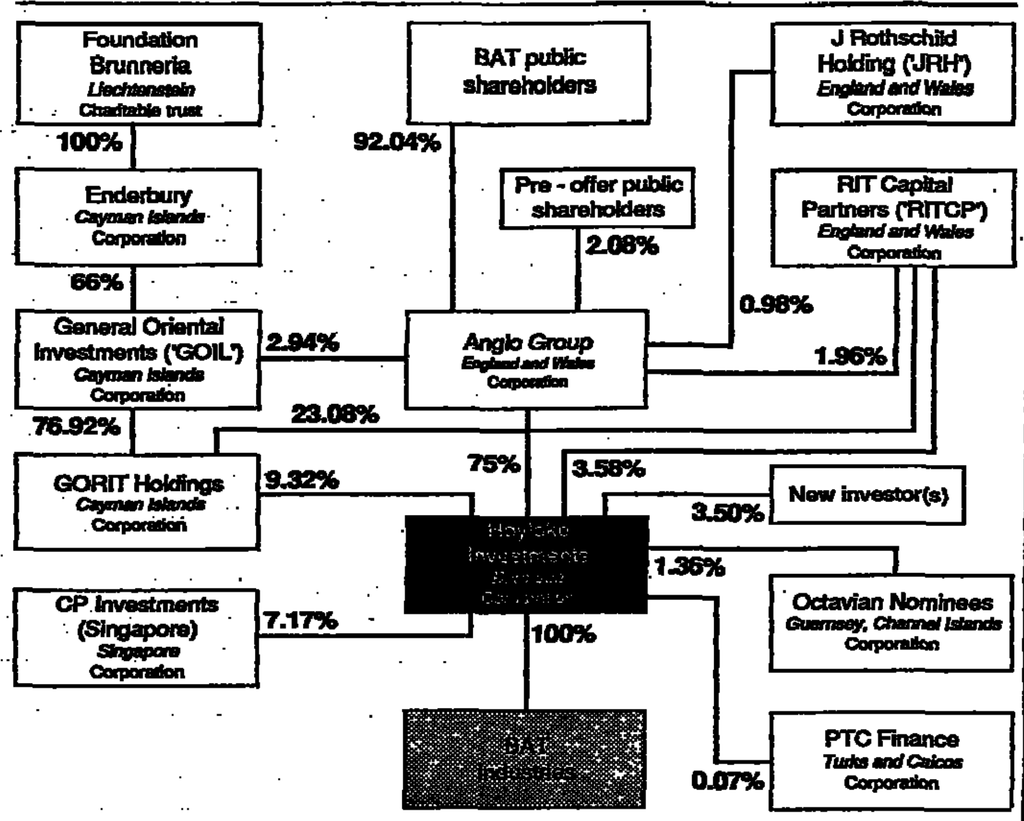
The feeling in the banking community yesterday was that the UK clearers would probably be those most reluctant to finance an attack on BAT, and that the Americans and Japanese would be among those most eager.

However, even the clearers have become much more aggressive recently, sometimes to their embarrassment. Barclays earned a rebuke from GEC when it offered to help finance the Plessey consortium takeover attempt in January. And in a little noticed sidelight to the recent £2bn bid for the Gateway food retailer, the Midland Bank actually found itself on both sides of the deal, as underwriter for the winning offer by Isosceles, and as merchant banking adviser through Samuel Montagu to Newgateway, the rival bidders.

One banker commented last night on these increasingly tangled relationships: "Banks have really got make their minds up now who their clients are."

See Lex

Hoylake's blueprint for BAT



Copies of this chart appear in the documents filed with US insurance regulators by Hoylake, the investment vehicle for Sir James Goldsmith's bid for BAT. It sets out Sir James's plans for the way the ownership structure of BAT will look if Hoylake's £13bn bid is successful.

The entities on the upper left – Brunneria, Enderby, GOIL and Gorit – are Goldsmith family companies. According to the filings: "as a result of James M Goldsmith's position as chairman of GOIL and certain authority he has with respect to Brunneria, Brunneria and Mr Goldsmith may be deemed to be parents of GOIL."

At bottom left, CP Investments (Singapore) is a subsidiary of Mr Kerry Packer's Consolidated Press Holdings. At top right, J Rothschild Holdings and RIT Capital Partners are part of Mr Jacob Rothschild's stable of companies. RIT is the investment trust that was spun off by J Rothschild Holdings in 1988.

At bottom right is a box marked "New investors". At present, GOIL owns the 3.5 per cent of Hoylake's shares referred to. GOIL is "currently seeking additional investors to purchase such interest," the filings say. It was revealed last night that these additional investors will include the UK's GEC and Italy's Agnelli family.

First blood to Anglo United in battle for institutional favour

By Ray Bashford

ANGLO UNITED has won the first round in the fight to secure the support of the institutional shareholders in Coalite who are making their final assessments of Anglo's £478m takeover offer.

Anglo's offer for its far bigger competitor in the fuel distribution business closes tomorrow and both camps are launching their final assaults on the institutional investors who hold the key to the outcome of heated contest.

One hundred institutions control 82 per cent of Coalite's capital with the 10 largest groups in charge of a 35 per cent slice.

The Prudential, one of the 10 largest shareholders, was revealed yesterday as the seller of half of the its holding on Monday to Anglo United. The 2.8 per cent block was sold at 470p per share compared with the 475p per share cash element of the bid and boosted Anglo United stake to 8.4 per cent.

Analysts saw the sale as strengthening the chance of Pru accepting Anglo United's terms for the remaining half of the stake under the takeover terms.

The decision to sell to Anglo United, hard on the heels of the Pru's disposal of its 5 per cent stake in Gateway to Isosceles, was interpreted as a shift away from its traditional policy of supporting existing management in contested takeovers.

Mr Eric Varley, Coalite chairman, said that the Pru sale was a sign that it did not believe that Anglo United would succeed.

"If they (the Pru) thought that the offer was going to go through they would have waited to receive the higher offer price," the chairman said.

He estimated that the Pru had forgone about £500,000 by accepting 470p for the shares and not the offer price. The chairman calculated that in addition to the 5p difference between the accepted price and the bid price, the Pru also would not receive the 11.2p dividend.

Mr Varley said the Coalite was continuing to receive "positive support from a considerable number of institutional shareholders."

Both sides are keenly awaiting the decision of the biggest shareholder, Morgan Grenfell Asset Management fund which controls 7.5 per cent of the capital. Anglo United picked up slightly over 2 per cent of the fund's previously larger holding on the day that the takeover was announced in late May.

Argyll chief 'assured' by DTI over role in Distillers takeover

By David Waller

MR ALASTAIR Grant, chairman of Argyll Group, visited the Department of Trade and Industry yesterday to discuss recent press speculation about Argyll's involvement in the DTI's investigation into Guinness over its takeover of Distillers in 1986.

Mr Grant had a meeting with a high ranking official and was given what he interpreted as assurances that the inspectors' net had not been widened to look at Argyll's own role in the takeover battle for the drinks giant.

He was told that the position in respect of the report had not changed since April when the Government indicated – via a parliamentary answer – that the inspectors had completed their enquiries.

"Argyll wishes to make it clear that the investigation is only into the affairs and membership of Guinness and not the affairs of Argyll," Argyll said in a statement seen by the DTI before being released to the Stock Exchange.

The inspectors submitted their interim report to Lord Young, trade minister, last November but publication will not be considered until after the outcome of criminal proceedings against seven men in connection with the takeover.

Press speculation that the DTI was probing Argyll's share dealings during the takeover appeared over the weekend and on Monday.

Last Friday, the Takeover Panel ordered Guinness to pay £85m compensation to former Distillers shareholders. Of this, £7m is to go to Argyll and £85m to its advisors which bought Distillers shares at the time of the takeover.

Securiguard up 67% to £2.45m

Pre-tax profits of £2.45m for the 28 weeks to May 21 were announced by Securiguard, the security systems and industrial cleaning group.

The outcome represented a 67 per cent increase on the previous year's £1.47m.

Turnover in the first half was 93 per cent higher at a peak £46.95m (£24.3m). After tax of £859,000 (£455,000), earnings per 5p share were 10 per cent higher at 9.7p.

There were no exceptional profits this time (£119,000). The interim dividend is increased from 2.2p to 2.8p. Last year's total was 6.5p.

Hampson shares rise as profits climb to £6.2m

By Edward Sussman

HAMPSON INDUSTRIES, the acquisitive West-Midlands based holding company with interests in precision engineering, industrial cleaning, bulk handling and printing equipment, boosted pre-tax profits 45 per cent in the year to March 31, from turnover ahead 33 per cent.

Profits came through at £6.2m (£4.3m) on turnover of £57.2m (£43m). A one-for-five scrip issue was proposed. Hampson shares gained 8p to 88p yesterday.

Mr John Wardle, chairman, made an optimistic forecast in tandem with the results. "There are some signs of nervousness in the media and the market with regard to short term prospects for the manufacturing industry," he said. "I do not feel nervous about the short term prospects for Hampson Industries."

Mr Wardle said the scrip issue was prevented last year by technical matters. The company brought out a £4.94m rights issue at the time instead. "The present rate of dividend will at least be maintained," he said.

No divisional breakdown was released, but the company said the secondary aluminium market had shown especially good results.

The results also included the first full year profits from the Kenmart Organisation, a printing machinery group, and from Swiftshield, a maker and supplier of PVC and aluminium doors and windows.

Mr Wardle said all principal activities, except one, had shown progress. The one activity was not identified.

Earnings per share were up 21 per cent at 8.56p (7.07p) on a diluted basis. A final dividend of 1.75p brings the year's total to 2.3p (1.65p), up 44 per cent.

Ansbacher gets £9.6m for insurance interests

By Patrick Cockburn

HENRY ANSBACHER Holdings, the financial services group, has sold its Ansbacher Insurance Holdings subsidiary to Leslie & Godwin, the Lloyd's broker, for £9.64m.

Henry Ansbacher said it was ending its interest in insurance because it believed conditions in that market were likely to remain difficult in future. In recent years its insurance activities had not provided an adequate return on capital.

Ansbacher Insurance is an international broking and marine underwriting group. It owns three Lloyd's brokers which provide marine, reinsurance and non-marine services.

In the US it owns Underwriters' Marine Services, a marine underwriting agency based in New Orleans.

The sale does not include the 75 per cent interest in Adams & Porter, a US retail insurance broking group based in New York and California. This is to be sold at a later date.

Excluding Adams & Porter, Ansbacher Insurance incurred a loss before tax of £265,000 in 1988.

Henry Ansbacher intends to use the proceeds of the sale, on which it expects to pay no UK tax, for other investment activities.

Compensation possible for Abbey shareholders

By Clare Pearson

SHAREHOLDERS in Abbey National who can demonstrate they have lost money as a result of a computer bungle by the registrars will be able to claim compensation for borrowing costs incurred after flotation day, July 12, Lloyds Bank Registrars said yesterday.

But these shareholders, along with others of the 120,000 people affected by the computer failure, face a lengthy process of correspondence with Lloyds before they will receive either compensation or their share certificates.

The addresses on these letters were garbled due to the inability of the Lloyds computer to cope with more than five lines.

Lloyds is today writing to all those concerned to check the certificates did not reach them, despite the garble, and they will have to write back confirming this before the certificates are sent out again. Those *seeking compensation* will also have to provide proof.

Lloyds said yesterday it could not say quite how its compensation scheme would work. But it would cover interest payments on overdrafts and loans taken out specifically to cover payment for shares which were incurred after the first day of dealing – originally the target date for receipt of certificates by shareholders.

Lloyds is not offering compensation to any shareholders outside this group of 120,000.

The number eligible may be fairly small. Of the 1.6m Abbey members who have applied for extra shares, on top of those they were given free in the flotation, about 60 per cent paid for them by direct debit from their savings account rather than by cheque, and were only debited for those they were allocated.

The 120,000 are the final group of Abbey shareholders not to have received their certificates. But some 150,000 have also suffered delays in receiving either their certificates, or their refund cheques, through other difficulties that have arisen.

Fenner purchase

JH Fenner Holdings has acquired QEMC Pty, an Australian-based distributor of electric motors, gear boxes and associated transmission equipment, for £875,000.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Brasway	fin	1.07625	Oct 26	0.7175	1.52625	1.0175
Cityvision §	int	0.5†	Nov 17	-	-	1
Clarke Hooper §	fin	2.45	Sept 19	1.8	3.9	3
Colefax & Fowler	fin	2.2	Oct 3	1	3.3†	1
Electron House	fin	3.1	Oct 31	2.5	5.6	4.5
Eurotherm	int	1.75	Oct 3	1.47*	-	5.33*
Hampson Inds	fin	1.75	Oct 2	1.25	2.3	1.65
Harris (Philip)	fin	3.5	Sept 4	3.5	5.6	5.5
Leslie Wise	*int*	*1.5*	-	*1.25	-	3
Microgen	int	2.2	Aug 25	2	-	6.5
Rush & Tompkins	fin	11.2	Oct 9	9.3	15.2	12.55
Securiguard	int	2.8	-	2.2	-	6.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- British Kidney Patient Assoc, Clarke Nickolls & Coombs, Drayton Far Eastern Trust, First Leisure, Scottish American Inv. Trust.

Finals- Associated British Consultants, Authority Investments, Bespak, British Bloodstock, Bulmer (HP), Creighton Laboratories, Hartland Simon, Logitek, Neepsend, Priest (Benjamin), Tinsley Robor.

FUTURE DATES

Interims-	
Aaronson	July 28
Abbey Panels	July 28
Barr & Wallace Arnold	Aug. 23
Berkeley Govett	July 27
Mount Charlotte	July 28
Rue Estates	July 27
Waco	July 27
Yelverton Invs	July 26
Finals-	
Fleming Enterprise	July 26
Great Universal Stores	July 20
Kenyon Securities	July 25
Planning Research	Aug. 3

UK COMPANY NEWS

Microgen warning hits share price

By John Thornhill

SHARES IN Microgen Holdings, the computer bureau services company, slipped 17p to 222p when the company unveiled a 5 per cent fall in half-year profits and said the outcome for the year would be only marginally above the previous year's level.

Pre-tax profits fell from £5.15m to £4.89m in the half-year to April 30 although turnover rose strongly by 19 per cent to £22.98m (£19.38m).

Mr Patrick Barbour, chairman, ascribed the disappointing result to a severe price war which affected its Eurocom Depora subsidiary in West Germany and one-off reorganisation costs. These factors had depressed profits by nearly £500,000, he said.

Microgen is currently developing a range of information management services which will increasingly be marketed as a package. The company will then be able to offer a range of information retrieval, computer processing, phototypesetting and printing services from one source.

This strategy has involved the merger of its computer output and microfilm activities with its laser printing operations. Microgen plans to benefit from their combined sales forces and customer lists but in the short term has incurred costs in rejigging its operations.

Capella, its Scandinavian subsidiary which accounts for nearly a quarter of sales, performed strongly during the period but bore the costs of establishing a distributorship in Norway.

Microgen has bolstered its senior management through the appointment of Mr John Thorpe, formerly head of De La Rue's security printing operation, as managing director.

The directors have increased the interim dividend to 2.2p (2p) despite a fall in earnings per share to 8.2p (8.6p).

Mr Barbour said: "There will be minimal growth for the year as a whole but I hope we will see strong profit growth throughout 1990."

● COMMENT

Microgen's annual report, which is always enlivened by the appearance of an aphorism on its front cover, last year quoted the Chinese proverb: "He progresses fastest who takes the largest number of short steps." So far – in profits terms at least – these steps have not amounted to much, but it could well be that in the longer run this oriental wisdom proves valid. The company's strategy of providing information management services superficially looks an attractive one although it has yet to be fully tested in the rigours of the UK marketplace. But Capella has shown what can be done in the less-competitive Scandinavian arena and if its successes can be translated in the UK then Microgen will resume its previously good profits growth. It will take something of an act of faith for investors to clamber aboard at this stage and a degree of patience to stay with it, but as soon as any signs of its strategy being vindicated become apparent then the rewards will flow. Until then, a prospective p/e of 13 on pre-tax profits of just over £10m looks heavy.

Colefax & Fowler at £2.7m after 83% rise

By Alice Rawsthorn

COLEFAX & Fowler, one of the Sloane Rangers' favourite sources of home furnishings, announced an 83 per cent advance to £2.71m in pre-tax profits on sales up 66 per cent in the year to April 30 1989.

Mr David Green, chief executive, said most of the increase was attributable to Cowtan & Tout, the US wallpaper company that Colefax acquired last autumn. Although, he said, the rest of the business had fared well.

Cowtan contributed about £600,000 to profits and nearly £5m to sales in its first six months with Colefax. The rationale for the acquisition was to gain a distribution network in the US and a compatible brand to Colefax.

The Colefax collection is now sold in each of the 17 Cowtan showrooms. Cowtan already distributes half of the collection and will handle the rest when its agreement with its distributor comes to an end in 1991.

Colefax established a base in Australia during the year. Mr Green said that contributed about £600,000 to sales in its first ten months.

In the longer term Colefax intends to take control of its distribution in Europe. By 1992 it plans to have established its own distributors in major markets – like France, West Germany, Spain and Italy – and to have appointed agents in other countries.

This will involve ending its present distribution agreements. Mr Green said the level of sales generated from Europe – less than £600,000 – was too low for this to disrupt the business.

The UK business, which accounts for more than half turnover, mustered sales growth of 40 per cent during the year. Mr Green said that demand had been unaffected by the recent rise in interest rates and that the pattern of trading was still healthy.

Turnover came to £19.04m (£11.49m). Earnings per share rose to 11.8p (9.4p) and the final dividend is 2.2p for a total of 3.8p (1p). The shares rose 3p to 186p yesterday.

Changes in pension provision reflected in new business figures at Legal & General

By Eric Short, Pensions Correspondent

LEGAL & GENERAL Group, one of Britain's largest life assurance and financial services group, has reported new annual premiums on individual pension business up by 43 per cent, from £34.4m to £49.1m, and single premiums up by nearly two-thirds, from £43.8m to £71.6m.

These figures, for the first six months of the year, illustrate the benefit to life companies of the radical changes made last year in UK pension provision, in particular the introduction of the new style personal pensions.

To date, over 200,000 personal pensions have been sold by the group since these contracts were introduced, giving L&G around 5 per cent of the market.

Individual pension sales in the first six months of last year were in themselves buoyant, particularly to the self-employed ahead of the introduction of the new style personal pensions. So the sales increase was achieved from an already strong base.

However, these figures do not tell the complete story.

The substantial growth in single premium individual pension business reflects the buoyant market in rebate-only personal pensions used by employees to contract out of the State Earnings-Related Pension Scheme.

But L&G only credits the contributions actually received from the Department of Social Security in respect of these rebate-only personal pensions. The group estimates that it should receive a further £125m in contributions from the DSS for business completed in the tax year 1988/89.

The group's traditional group pensions business showed continued natural growth in the UK, with a 16 per cent rise in annual premiums from £21.5m to £25m, though single premiums declined substantially.

Life companies are expected to record substantial drops in their mortgage related business as a result of the depressed housing market.

However, L&G reports only a 6 per cent fall in new annual premiums on sales of conventional mortgage-related contracts from £40.7m to £38.2m, and a 65 per cent rise in premiums on unit-linked contracts from £2m to £3.3m.

This reflects the benefits of L&G widening its distribution outlets and expanding its tied agency network which includes 18 building societies.

Unitised savings business remained generally dull over the period. New annual premiums rose by £1m to £3.8m, but linked-life single premiums halved from £30.8m to £15.2m and unit trust sales dropped by a third from £20.1m to £13.6m.

New money received by the group's fund management operations expanded from £74.7m to £622.5m, of which £552m was invested in the index tracking funds.

Philip Harris dives to £911,000

By Graham Deller

PHILIP HARRIS Holdings experienced a "lamentable" shortfall in budgeted expectations in the year to end-March, according to Mr John Haller, chairman of this scientific and educational equipment supplier.

Although turnover grew from £55.27m to £65.53m, pre-tax profits dived 40 per cent to £911,000 (£1.51m).

Reiterating his remarks at the interim stage, Mr Haller said the fall was "due entirely to substantial losses in two operations" – the relocated Scientific company and routine international trading.

The educational and scientific companies, including international operations, produced turnover of £29.9m (£24.1m) but saw operating profits dip to £744,000 (£956,000).

Mr Haller said rationalisation of the scientific side under the management of Northern Media, acquired by Harris early in 1988, should result in improved profitability at the division and "original high intentions" should be achieved.

Harris also yesterday unveiled proposals to purchase, subject to shareholders' approval, Northern Media's deferred preference capital for £785,000 in loan notes.

A contrasting performance was provided, however, by the Philip Harris Medical subsidiary which lifted turnover 14 per cent to £35.6m and operating profit by just over 10 per cent to £583,000. The improvement came in spite of what Mr Haller described as "internecine turmoil" within the pharmaceutical distribution industry following the Unichem scheme. The new retail operation had made a promising start, he added.

Earnings per 20p share declined to 6.9p (14.4p), and the total dividend is held at 5.5p via a maintained final of 3.5p.

ISSUE NEWS

USM debut for Polar Electronics

By Vanessa Houlder

Polar Electronics, an electronic component distributor, is joining the USM in a placing that values it at £8.3m.

Samuel Montagu yesterday announced a placing of 1.9m shares at 105p, which will raise about £1.65m for the company. Joint brokers to the placing are Laurence Prust and Smith Keen Cutler. Dealings are expected to start on July 25.

Polar distributes integrated circuits, relays, switches, connectors and capacitors to a wide range of customers, mainly original equipment manufacturers.

It holds 19 franchises from component manufacturers, including SGS-Thomson, Matra Harris, General Instrument and TDK. It is the largest UK distributor in respect of eight of its franchises. Franchise business currently accounts for two thirds of Polar's turnover, although it is now negotiating further franchises.

It also intends to consolidate its position as a franchised and non-franchised distributor of products in which it is not strongly represented, such as connectors and the military market.

Profits before tax and directors' additional remuneration in the year to September 30 1988 were £994,000. For the current year they are forecast to be a minimum of £1.2m. That puts it on a prospective p/e multiple of 8.75 on the basis of a forecast tax charge of 36.6 per cent.

Placing puts £13.7m tag on Danbury

Danbury, an Essex-based property development group, yesterday announced its flotation on the USM.

The placing, which will capitalise the company at £13.74m, is being sponsored by Royal Trust Bank. Royal Trust is also injecting a further £1m of additional equity by exercising an option.

Societe Generale Strauss Turnbull is placing 3.15m shares at 135p. The placing will raise about £3.91m, which will provide additional working capital for the group. Dealings will start on July 25.

Danbury started trading in January 1986. It specialises in the redevelopment and enhancement of existing property sites, mainly in urban locations. In the year to end-March it made pre-tax profits of £1.69m (£130,000) on turnover of £4.44m (£500,000).

Eurotherm rises 15% midway

By Edward Sussman

Eurotherm International, the industrial process control and electronic equipment manufacturer, yesterday announced a 15 per cent increase in pre-tax profits from £5.8m to £6.7m for the six months to April 30.

Mr Jack Leonard, chairman, said the core business continued to grow strongly, with order books currently up 24 per cent from a year earlier. But the development of new products had been slower than hoped, thereby delaying launches that might have increased profits.

He declined to break down profits by individual divisions. But he said there was progress in variable speed drive companies and process control system companies. UK and US temperature control divisions have shown some recovery.

"Considerable investment" has been made in a new US facility for the automatic assembly of conventional and surface mount circuit boards. New ventures in South Korea, Spain and Norway are also underway, although not yet contributing to profits.

"There is as yet little sign that the global business environment will not continue to support strong growth and, despite short term difficulties created by new product delays, I remain fully confident of our future," Mr Leonard said.

Turnover rose 11 per cent to £67.9m (£61m). Earnings per share were 10.09p (8.33p) and an interim dividend of 1.75p (1.47p) is declared.

NEWS DIGEST

Clarke Hooper 45% up at £2.3m

By Vanessa Houlder

CLARKE HOOPER, the USM-quoted sales promotion and marketing group, yesterday announced a 45 per cent rise in pre-tax profits from £1.58m to £2.28m for the year to April 30.

Mr Barry Clarke, chairman, said that the group had achieved impressive growth in its core UK sales promotion consulting business while successfully expanding the group's geographical coverage and range of services in the UK and North America.

Clarke Hooper America, as a whole, remained profitable. However, Joseph Potocki & Associates, a marketing services company, incurred an operating loss due to increased overheads as a result of expansion. The company said it had restructured its management and operations, which should ensure improved results this year.

Turnover increased 89 per cent from £21m to £39.76m. Earnings per share advanced 28 per cent to 14.7p (11.5p). A final dividend of 2.45p brings the year's total to 3.9p (3p).

Bourne End buys £16m portfolio

Bourne End Properties has acquired a major portfolio of trading properties for £16.25m, funded principally by a short term mortgage. The vendor was Equity and Law.

The portfolio comprises 19 offices, retail and industrial properties (17 freehold) located throughout the UK and producing an annual gross income of £931,750.

Sales improve 32% at Leslie Wise

Leslie Wise Group, a textile design finishing converting and manufacturing company, reported pre-tax profits up from £1.15m to £1.79m in the six months to May 31.

Sales rose 32 per cent from £10.65m to £14.03m, reflecting an improvement from 10.8 to 12.7 per cent in pre-tax margins.

After tax of £625,000 (£404,000), earnings per 20p share emerged at 3.7p (2.62p). The interim dividend is raised from 1.25p to 1.5p.

Pension fund pulls back Bogod-Pelepah

Reduced annual profits were reported by Bogod-Pelepah, the distributor of sewing machines and accessories.

In the 12 months to end-March, pre-tax profits dipped to £206,000 (£318,000). However, much of the decline was attributable to pension fund contributions of £130,000 taken above the line as an exceptional item.

Turnover was £6.9m (£6.5m). Earnings worked through at 1.2p (1.86p) per ordinary share and 2.4p (3.72p) for the more widely-held restricted voting shares. Final dividends for each class of share were maintained at 0.22p and 0.44p respectively making unchanged totals of 0.32p and 0.64p.

Triplex Lloyd £2.7m purchase

Triplex Lloyd has purchased the centrispinning business of Firth Vickers Foundry, a subsidiary of Firth Rixon, for £2.7m.

The company, to be known as Firth Vickers Centrispinning, complements the high alloy spun products of Lloyds (Burton) and forms part of the strategy of strengthening the power and defence division of Triplex Lloyd.

Mr David Aston, the defence division's managing director, said the company served customers worldwide in aerospace and power generation.

Trust of Property assets edge ahead

Net asset value of the Trust of Property Shares was 120.44p at June 30 1989 – a slight increase on the 118.6p standing a year earlier.

However, the directors said that that the increase of just over 9 per cent in nav from the trust's year-end in December compared with a gain of 7.45 per cent in the FT-A Property index.

Earnings per 5p share rose to 0.696p (0.268p).

Cookson expands at home and abroad

Cookson Group has acquired Feboresa, a Madrid-based producer of ceramics supplies and base metal refining and processing for building materials, for an undisclosed cash sum.

The Spanish company's turnover in the year to December 31 was Pta 2.5bn (£12.9m) and net assets were valued at Pta 415m. It employs 180 people.

Cookson also announced the acquisition of Fernox Manufacturing, an Essex-based manufacturer of anti-conditioning and industrial heating and cooling systems. The company will be integrated into the Cookson Fry operation.

Everards boosted by property sales

Everards Brewery, the independent traditional ale company, yesterday announced substantially higher interim profits.

For the six months to March 25 1989, the Leicester-based brewer lifted pre-tax profits from £294,000 to £2.43m. The increase, however, was almost entirely attributable to property disposal profits of £2.14m, which largely accrued from the sale of a 4.5 acre site close to its Castle Acres brewery.

At the trading level, profits showed a much more modest increase, from £285,000 to £290,000. Turnover was £11.17m (£10.09m).

CORRECTION
Dean & Dyball

An article in the FT on July 11 incorrectly stated that Dean & Dyball, the private construction company, may be responsible for repurchasing properties sold to Marina Development, the property group. That responsibility is being personally assumed by Dean & Dyball Property directors Mr John Dean, Mr Mark Sedgley and Mr Richard Reddyhoff.

UK COMPANY NEWS

The volatility of high technology business

Paul Abrahams on the problems facing companies at the forefront of their field

THE SALE of Crosfield Electronics by De La Rue to Du Pont and Fuji reflects both the potential and danger of fast growing high-technology industries.

The potential for Crosfield is considerable. It is one of the leading companies in pre-press technology and in the potential of electronic page composition systems. These allow high-resolution text and images to be electronically altered before they are printed.

The market for such systems is expanding rapidly according to Mr Clifford Schwieter, business director for Dupont's electronic imaging systems division. In the pre-press arena, the success of Waco and Parkway, the rapidly growing UK pre-press groups, has been based upon this technology. Moreover, in the medium term, such technology could also be used for applications outside the graphics and printing industries which have been Crosfield's main markets. These include medical and satellite imaging, and defence, says Mr Schwieter.

De La Rue's pre-press division should match the ambitions of both Dupont and Fuji. These companies have recognised that the film they manufacture will eventually be replaced by digital systems similar to Crosfield's.

Last May, after the acquisition of Howson-Algraphy, the manufacturer of lithographic printing plates owned by Vickers, Mr Elwood Blanchard, Du Pont's vice chairman said that imaging systems was one of the businesses the company had targeted for growth. Until the acquisition of Crosfield, the company's expertise was limited to black and white systems and the results of a relatively new joint research venture in colour imaging with Fuji.

Although the potential for growth of Crosfield were apparent to De La Rue, so too were the risks. Profits in the division fell from £21.1m in 1987 to £5.2m last year. This included a loss of £1.1m in the second half of the financial year, which contributed to a 57 per cent fall in the group's profits.

"The problem is that there is always an inherent degree of volatility in a hi-tech company," explains Mr Jim Salmon, Crosfield's managing director and deputy chief executive at De La Rue. "The trouble is trying to project smooth growth. In the second half of last year we walked off the edge of a cliff."

The difficulties faced by Crosfield were typical of those faced by most technology-driven companies. Both Crosfield and Scitex, its main competitor in the electronic page composition sector, have experienced down-turns in business when trying to introduce new systems.

Last year Crosfield was forced to announce the introduction of a new generation of electronic page composition systems based on a 32-bit platform after Scitex had launched a similar system more than 18 months ago.

However, the division subsequently had difficulties with the design of the application-specific integrated circuits (Asics) necessary for the new machines, as well as problems in the systems' software. The result was that instead of shipping the product in January, the first generation equipment was not ready until the end of May. The second generation machines, which should be free of software problems, will only be ready by October.

The result of this delay was that the division was in no position to handle a dramatic decline in the sales.

The effect of this fall on Crosfield was considerable. Although the company had been emphasising last year that it had diversified the group so that it could absorb such down-turns, the colour graphic sector, made up electronic page composition systems and scanners, still generated 53 per cent of the division's turnover in 1988.

In addition, the division was faced with falling margins in the scanner market where the Japanese-based company, Dainippon, was actively price-cutting. Simultaneously, the news-publishing sector, which represented about 8 per cent of the division's turnover, was adversely affected by the US election and a down-turn in advertising revenue.

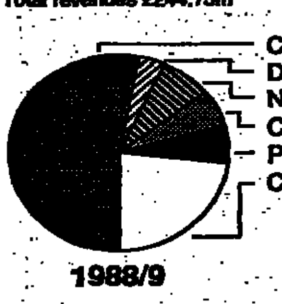
The sale of Crosfield was, in the long-term, not unlikely explains Mr Salmon. Although the new generation of equipment now being launched should improve margins because it is cheaper to manufacture, he believes that the company would eventually have come under pressure from other, larger, concerns.

He points out that companies such as Kodak and Agfa, as well as Dupont and Fuji, were already moving into the market. It would, he says, have been very difficult for De La Rue to have taken on these giants because it would never have been able to afford the marketing effort necessary to break out of the graphics field.

This echoes reasons given by other British companies in explaining the sale of world-leading divisions. When Vickers, the UK engineering group, sold its Howson Algraphy printing plate business to Du Pont in May, the company said that the prospects for the business were limited unless it was combined with a large manufacturer of complementary products.

Crosfield revenues 1988/9

By business segment
Total revenues £244.75m



	1988/9	1987/8
Colour graphics	53%	57%
Design systems	4%	1%
News publishing	8%	9%
Communications	6%	7%
Press controls	6%	5%
Customer service	23%	21%

Expansion minded Brasway hits £3.6m

By Richard Tomkins, Midlands Correspondent

A LACK of acquisitions during the year to April 29 failed to deter Brasway, the West Midlands-based tube, bar and hydraulic components group, from increasing pre-tax profits by 51 per cent to £3.61m.

Mr Reg Swaby, chairman, said the figures "spoke volumes" for the management's ability to drive the company forward organically, but predicted that more acquisitions would come this year.

Best performer in the group's portfolio was Europower Hydraulics, the manufacturer of hydraulic couplings and hose assemblies bought from Unilever in January 1987, which benefited from improved efficiency and strong demand.

The tube manufacturing and stockholding operations fell short of budgeted profits, but still turned in a strong performance on the back of buoyant demand, particularly from the automotive industry.

The bright bar division also improved profits in the face of severely competitive conditions, while the oil blending side increased pre-tax profits from £262,000 to £221,000.

Group turnover rose from £34.8m to £42.6m. Earnings per share advanced from 4.44p to 6.4p and a final dividend of 1.07625p makes a total of 1.52625p (1.0175p). A one-for-one scrip issue is also proposed.

Mr Swaby was optimistic about the outlook in spite of the high interest rates. The group would increase market share not by reducing margins, he said, but by improving its products and service.

Cityvision views advance to £4.62m

By John Thornhill

A CHANGE in accounting policies and a sizeable expansion programme helped Cityvision, the USM-quoted video hire company, nearly treble pre-tax profits from £1.54m to £4.62m in the six months to end-May.

Since the comparable half, the depreciation period on tapes was increased from 15 to 30 months and this has had the effect of considerably boosting stated profits. On a like-for-like basis profits advanced by 58 per cent.

During the period, the number of Ritz Video Film hire stores was lifted from 165 to 334. The company also bought Tredegars Home Entertainment and Entertainment Production Services which run 30 outlets in cash-and-carry warehouses.

Mr Bev Ripley, deputy chairman, said the company was currently opening five to six retail shops a week and was gearing itself up to open seven to eight.

It currently has 370 retail outlets but is aiming to increase this to 1,000 within about two years.

Mr Ripley also said the flow of films being released by Hollywood during the next month would be excellent. "There are some 60 block-busters coming through including A Fish Called Wanda, Die Hard and Rain Man," he said.

Turnover rose sharply to £16.89m (£8.46m). An interim dividend of 0.5p (nil) was declared. Earnings per share grew from 2.52p to 5.69p.

The directors are proposing a one-for-one scrip issue to improve the marketability of the shares.

● **COMMENT**

Cityvision has been expanding at a rapid rate but the good news for the company is that enormous market share is still there to be grabbed. The total video film hire market is estimated to be over £500m and is at present populated by a host of small retailers. Cityvision has done much to awaken people to the attractions of the market and there are strong rumours that some of the major high-street retailers such as Kingfisher and WH Smith are ready to move in, but even so Cityvision has already established itself as the biggest player and will not be easy to shift. Another possible threat in the longer term might be the possible take-off of movie channels on satellite television but that danger still looks rather pie-in-the-sky for the foreseeable future. Pre-tax profits for the year could rise to £10.8m putting Cityvision on a prospective multiple of just under 14. That does not seem too fancy considering the growth potential.

Rush & Tompkins accelerates 36% to £8.32m

By Andrew Taylor, Construction Correspondent

PRE-TAX profits of Rush & Tompkins, the UK developer and contractor, rose 36 per cent from £6.12m to £8.32m during the 12 months to end-March.

Hochtief, the West German construction company, holds a 22.8 per cent stake in the company. Singapore Land, one of Singapore's largest property groups, has a 14.9 per cent interest.

Mr Neil Dunnett, managing director, said the relationship with Hochtief would provide the group with opportunities to expand on the Continent, should the British development market start to recede next year.

The company also had long term plans to expand in the Far East and was pleased with shareholdings held by Hochtief and Singapore Land, he said.

Since being restructured in 1986, Rush & Tompkins has established a niche in the UK market as a contractor developer. It invests no more than 50 per cent in a single development for which it also does the contracting.

Last year about £4m of pre-tax profit was generated from property joint ventures in the UK, and to a lesser extent in the US. The group said it had formed more than 40 property joint venture partnerships in the UK since 1986, covering 50 schemes with a combined development value of £750m.

The average stake in each scheme held by Rush & Tompkins was 40 per cent. Group borrowings last year were reduced by almost 25 per cent to £20m compared with shareholders' funds of £35m.

Turnover rose from £216.64m to £255.73m. Earnings per share increased 31 per cent to 37.8p, and a final dividend of 11.2p makes a total of 15.2p (12.55p).

● **COMMENT**

The decision to become a contractor developer is starting to pay-off as the first schemes are completed and sold. The arrangements allow Rush & Tompkins two bites at the cherry – a fee for the contracting work and a share in the development profits when the project is sold. The timing of completions means that profits from disposals should flow through more strongly this year. A wide regional spread of properties should assist the group and provide some measure of stability as individual property markets reach their peak over the next 18 months. The link with Hochtief will also provide opportunities for property joint ventures on the Continent, ahead of 1992. This year should see further growth in profits to about £12m which would put the group on a prospective p/e of 7.5. That looks a little cheap compared with some property/contracting companies which, unlike Rush & Tompkins, are exposed to the UK housing market.

GKN acquires Australian folding scaffold system

GKN, the automotive components and engineering group, is expanding its Australian building services operations by acquiring the Preston folding scaffold system for £3.27m.

The system, developed four years ago for major construction and refurbishment projects, was designed and marketed by Preston Erection.

The modular construction of the system represents a significant change in the industry, moving from equipment such as poles and staging, which require labour intensive assembly, to large prefabricated sections that are lifted into position by crane.

GKN plans to develop the Preston system through its GKN Kwikform division by introducing it throughout Australia at the earliest opportunity. GKN Kwikform has an annual turnover of about £47m.

Yale and Valor

Yale and Valor has announced proposals to merge its small appliance and water heating division to create an electrical products division.

Carlton plans sale of base companies for £16m

By Raymond Snoddy

CARLTON Communications, the television services group, is to sell some of the companies on which the early foundations of its business were based.

Carlton, which has recently been holding exploratory talks on a possible takeover of Thames Television, yesterday said that it was selling Carlton Fox, Carlton Studios and related companies to Stanco Exhibition Group for a total consideration of £16.2m.

Fox and Studios and their subsidiaries are involved in three-dimensional and graphic design, exhibition stand fitting, photographic and laboratory services.

Mr Bob Phillis, group managing director, said the companies being sold "are no longer part of the core activities of the Carlton group," although they are "sound and solid businesses." The sale is being satisfied in new Stanco shares, some of which will be placed to raise £8m cash with Carlton agreeing to hold the balance for two years.

The shares retained by Carlton amount to 28.17 per cent of the enlarged share capital of Stanco whose services include the supply of exhibition stands, interior shopfitting and factory and office reception fitting.

Mr John Friswell, Stanco chairman, said yesterday that the deal took the company into new and complementary growth areas.

CEI in £5.5m expansion

Cambridge Electronic Industries, the components and instrumentation group, is acquiring Universal Health Care.

CEI is paying £2.4m cash for the privately-owned company, plus an amount equal to the value of Universal's cash balance, estimated at about £2.7m.

Universal owns Rigel Research, a Surrey-based company which manufactures patient monitoring and safety testing equipment.

For the 18 months to June 30 1988, Rigel reported net profits before tax of £500,000 on sales of £2.4m. Net tangible assets amounted to £900,000.

CEI lifted 1988 pre-tax profits by 19 per cent from £12.63m to £15m on turnover of £173.65m.

Electron House profits soar 79% to £4.8m

By Edward Sussman

ELECTRON HOUSE, computer products and electronic components distributor, said pre-tax profits rose 79 per cent in the year to May 31, as the group's market share grew and its product mix increased.

Pre-tax profits reached £4.82m (£2.7m) as sales jumped 61 per cent from £56.9m to £91.8m. Mr Robert Leigh, chairman, said 43 per cent of the increase in sales was attributable to organic growth. The shares gained 11p to 152p.

The group has expanded greatly in recent years as a result of an aggressive acquisition strategy. Most recently, the group merged its US subsidiary Pacesetter with electronics distributor Almo in exchange for a 44 per cent stake in the newly created Electron House Inc. Last summer, the group bought HB electronics for £8.3m.

Sales remained heavily based in the UK and southern Ireland, with computer products and systems in these areas accounting for £44.8m (£25.9m) and electronic components registering £29.8m (£16.9m). North America, excluding ten weeks of revenue from Electron House Inc., saw a dip in sales from £4.5m to £3.7m. Electron House Inc. contributed £7.6m in the ten weeks to May 31.

Mr Leigh said the group is targeting continental Europe, where it currently has no operations, for new acquisitions.

Earnings per share rose by 36 per cent from 12.75p to 17.35p as the tax charge grew to £1.74m (£1.07m). A final dividend of 3.1p makes a year total of 5.6p (4.5p).

● **COMMENT**

Electron House complains that its historical p/e of about 8.5 puts it well below the average of 12 for most of its competitors. The market is still stung by memories of a hefty tax charge that cut into the bottom line three years ago and questions about just how the acquisition-minded group has managed to sustain such strong organic group. Easy enough to explain, Electron House says: a solid management structure backed by a diverse group of products. Analysts are starting to agree, although with gearing near 50 per cent and the market uncomfortable with the idea of Electron House issuing more new paper, acquisitions of the sort that have transformed the group since its USM listing in 1985 will be more difficult. Pre-tax profits of £6m for 1990 give a prospective multiple of about 7, which is likely come closer to sector's average.

IN BRIEF

C A SPERATI (The Special Agency): Pre-tax profits £20,782 (£8,684) for six months to end-April 1989. Turnover £335,939 (£345,672). Earnings per 50p share 15.18p (5.36p). The company, a button and trimming merchant, last paid a dividend in 1980.

BARDSEY has exchanged contracts for the sale to Allied Industrial Estates of a freehold site in Sheffield for a total consideration of £2.3m.

HALLS HOMES & Gardens has acquired Hallmarked Building, a subsidiary of Maidstone Trading, for £1.8m to be satisfied by the issue of 1.2m shares in Halls, representing 10.2 per cent of the enlarged equity.

IMI has expanded its interests in the air conditioning industry via the acquisition of Atholl from Motherwell Bridge Holdings. Consideration was £2.25m cash.

TALBEX has received an approach by the management of James Warren Holdings, its subsidiary company through which the group's property development activities are carried on. It is expected that negotiations for the sale of James Warren would also cover the assets owned by United Mining, another subsidiary company.

Yearlings

The interest rate for this week's issue of local authority bonds is $13\frac{7}{16}$ per cent, up $\frac{1}{16}$ of a percentage point from the last issue two months ago. There is no comparative figure from a year ago. The bonds are issued at par and are redeemable on July 25 1990.

A full list of issues will be published in tomorrow's edition.

COMMODITIES AND AGRICULTURE

Colombia seeks ways to increase coffee exports

By Sarita Kendall in Bogota

THE Colombian Government and Federacafe, the coffee growers' federation, are searching for further policy changes to get the country's coffee exports moving following the recent collapse of the International Coffee Agreement and the resulting plunge in world market prices.

In spite of recent measures to make Colombian coffee more competitive, private exporters remain unable to operate profitably on the international market, so the exporting of Colombian coffee is being left to the federation.

The Government has agreed not to lower the domestic support price for the time being. This means that, after taking into account transport and marketing costs, private exporters need to receive in excess of US$1.05 a lb to make a profit. The recent fall, however, has taken the world price below $1 a lb.

One solution might be to reverse the "retention" tax usually paid in kind by private exporters, and turn it into an incentive. There is also a 6.5 per cent export tax, which goes to the national coffee fund.

The Government may also decide to allow inflation (running at 24 per cent a year) to erode the real value of the domestic support price. Normally the price is upgraded once or twice a year to keep it abreast of inflation.

The national coffee fund – devised partly to carry coffee growers through difficult times – has been helped by the relatively small 1988-89 harvest of 11.2m to 11.4m bags (60 kg each) and is liquid enough to buy the next main harvest, which begins in September.

Production capacity is about 13m bags, however, and the country has some 7.5m bags of export quality coffee in stock.

Colombia still hopes to raise its export volume by 20 to 25 per cent, but not at the expense of absurdly low prices.

Coffee earnings had been expected to bring in US$1.5bn this year, about a quarter of all export receipts.

However, the latest balance of payments calculations by the central bank estimate a shortfall of US$150m for 1989 and US$200m for 1990, assuming sales of more than 12m bags.

Meanwhile, the reduction from seven US cents a lb to three cents in Colombian coffee's "quality premium" over Central American milds, used to determine the foreign exchange deposits required on exports, has apparently had little effect on the market.

The coffee fund will begin to feel the pinch next year. Special advisers are already evaluating the fund's financial involvement in companies loosely known as "the coffee group."

While some – such as Banco Cafetero (the coffee bank) and Flota Mercante Grancolombiano (which operates the coffee shipping fleet) are too closely tied in with the coffee sector to touch, others will have to be cut loose: Federacafe may take over the fund's shares in some companies, or they may be offered to the public.

Colombia is the world's second biggest coffee exporter, supplying about 15 per cent of the market in recent years.

No country was more conscious of the International Coffee Agreement's benefits or more realistic about the effect of its collapse.

However, all its efforts in recent months to promote a compromise to save the agreement proved to no avail in the face of the rift between opposing groups of members.

Oil 'may reach $50 a barrel this century'

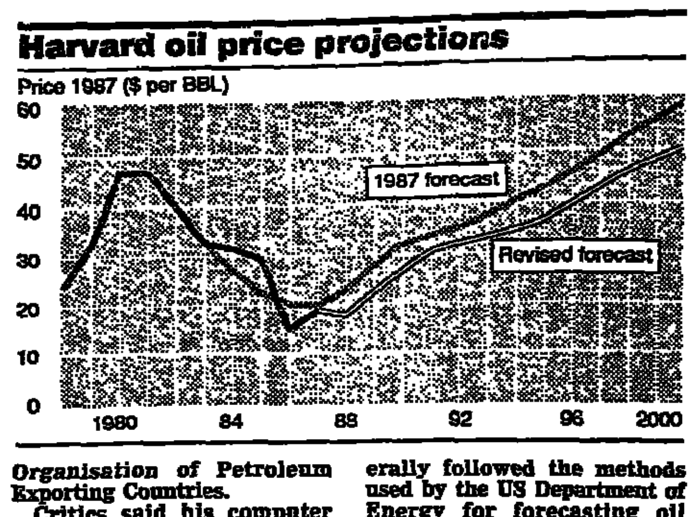
By Max Wilkinson, Resources Editor

WORLD OIL prices will rise steadily during the next decade, perhaps reaching $50-a-barrel by the year 2000, according to the latest forecast from the Harvard University Energy and Environmental Policy Centre in the US.

Professor William Hogan, acting director of the centre, in a discussion paper says: "The implications for policy are clear: the soft conditions of recent years present a great opportunity to prepare for likely difficulties that consumers will face in years to come."

Prof Hogan's latest forecast is an attempt to meet some of the criticisms of projections which he made in 1987 after a period of falling oil prices.

He said then that, just as high oil prices had tended to reduce demand and to stimulate production from new sources of supply, a period of weaker prices would lead to a recovery of oil demand with some downward pressure on supply from outside the Organisation of Petroleum Exporting Countries.



Critics said his computer model underestimated the extent to which the world would continue with measures to conserve oil consumption, even when prices were relatively low.

His projections, showing a fairly rapid rise in prices generally followed the methods used by the US Department of Energy for forecasting oil trends, although with some different assumptions.

The main difference is that Prof Hogan assumes that world oil demand will grow roughly in line with the growth of world output rather than at a slower rate as happened in the early 1980s, a trend which the official forecast assumed would continue.

The Harvard forecast has now been re-worked with different assumptions. These include: the possibility that a once-and-for-all shift in expenditures on conservation took place in the 1980s after which previous patterns of behaviour in relation to oil prices were reasserted; the idea that demand for oil may be less at low prices than predicted by previous equations; and the possibility that energy conservation may continue irrespective of price trends.

He has also looked at alternative projections for supply of oil at different price levels.

Generally, Prof Hogan says, the changed assumptions suggest that oil prices would rise less fast than previously predicted by his model, but still considerably faster than expected by other forecasters, including the department.

He says: "The conventional view, here represented by the Department of Energy analysis is for a continued soft market lasting through the end of the century. The usual arguments in favour of lower projections call for substantially lower growth in oil demand and the expansion of non-Opec supply. But these experiments suggest that something more must be required to achieve the lowest prices or to maintain a soft market for the next several years."

● A separate set of projections from Cambridge Energy Research Associates, suggests that for the rest of this year oil prices will remain in the range $14 and $17 per barrel, tending to be at the bottom end of the range this summer.

World Oil Price Projections: A Sensitivity Analysis, William Hogan, Harvard University Energy and Environmental Policy Centre. World Oil Watch, Cambridge Energy Research Associates, Charles Square, Cambridge, Mass, 02138 USA.

Salmon farmers 'must curb production'

By Karen Fossli in Oslo

NORWAY'S fish farmers will have to self-regulate annual salmon production volumes in order to keep in step with lower market growth, according to Mr Odd Berg, an official with the Norwegian Fish Farmers' Sales Organisation.

Salmon production is expected to increase by 70 to 80 per cent this year while market growth is estimated to slow to 50 per cent.

Mr Berg said: "Until now it has been possible to increase market share along with production but in future the rate at which production grows will have to be slower than that of the past."

In spite of steady increases in production volumes in recent years prices per kilogramme of salmon exported are steadily declining.

For example, in 1988 Norway farmed about 80,000 tonnes of fish at NKr39 per kilogramme compared with 28,000 tonnes in 1985 at NKr44 per kilogramme.

For the first five months of this year production increased by 53 per cent, or by 31,300 tonnes, at an export value of NKr40.38 per kilogramme compared with an average export price of NKr46.06 per kilogramme in 1988. Export prices are on average about NKr7 per kilogramme over the prices which the fish farmers are paid.

According to Mr Berg, several ways of regulating production are being considered. These including the slaughter of young salmon; freezing or holding a designated volume of fish until the following year – this would require a commitment to reduce the number of young salmon introduced into the farms. It has also been suggested that up to 30,000 tonnes be processed as animal meal.

Estimates for this year's exports have been put at between 100,000 tonnes to 120,000 tonnes, although production is more likely to exceed 150,000 tonnes because of a milder winter and less diseased fish than in previous years.

Norway's main export markets include France (19,000 tonnes), the US (10,000 tonnes), West Germany (7,500 tonnes) and Denmark (14,500 tonnes).

WEEKLY METALS PRICES

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,850-1,930 (1,880-1,950).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 4.70-5.00 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 5.00-5.30 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.40-7.60 (same).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 235-245 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.47-3.50 (3.48-3.53).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 5.50-6.00 (5.80-6.10).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 50-63 (51-64).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 5.45-5.75 (5.30-5.70).

URANIUM: Nuexco exchange value, $ per lb, UO, 9.80 (same).

Australian 'North Sea' finally comes of age

Chris Sherwell reports on the growing importance of the oilfields of the Timor Sea

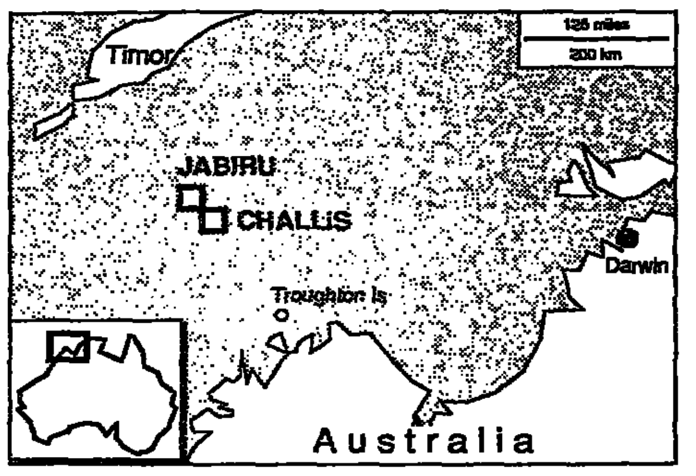
SOMETIME IN the next two months, at a remote spot in the middle of the Timor Sea, a giant 115,000-tonne rectangular barge will be carefully attached to a massive "riser" column fixed permanently to a template on the sea bed 110 metres below.

Each day, from a clutch of seven wells rapidly completed over the first seven months of this year, some 60,000 barrels of oil will flow to the surface. Australia's newest oilfield, known as Challis, will be onstream, joining the 40,000 b/d Jabiru field 20 km to the north. The Timor Sea will have come of age as an oil province.

As remote spots go in this vast continent, you cannot get much more isolated than the Timor Sea fields. To reach them you must fly 520 km west of Darwin on the northern coast, change to a helicopter at Troughton Island, then push 235 km north towards Indonesia.

For 20 years explorers had searched for oil in this now-distinguished but still-indistinguishable location. But 32 wells produced nothing. Then in 1983 BHP Petroleum, the oil arm of Australia's largest company, farmed in as the new operator. Using improved seismic data, its first well found a 57-metre interval of high quality oil bearing sand – the result was the Jabiru field.

Six years later, BHP has drilled some 49 holes. Four have been producing light, low sulphur oil in Jabiru for the past three years, seven more will be coming onstream in Challis. Another eight have been designated oil or gas/oil wells.



Jabiru, like Challis, has a novel "riser." But instead of being fixed, it floats, like a giant steel test tube with lead in its base. Beneath, lines stretch to the sub-sea wells. Atop, it is hooked to a 140,000-tonne detachable oil storage tanker, called the Jabiru Venture.

For BHP and Australia, such developments in the country's own "North Sea" are enormously important. When Challis production begins in October or November, the area will become the country's second most important oil province after the Bass Strait, off Melbourne. Its estimated reserves (at 90 per cent probability) are 124m barrels.

Although this is small by international standards – the North Sea's Kingfisher field was about 1.5bn barrels – it is far larger than expected.

At the time of Jabiru's go-ahead, reserves were put at 12m barrels. Challis's were put at 22m barrels. With the recent drillings of the Jabiru-8 and Challis-8 holes – the latter encountering the thickest oil column seen in the Timor Sea (77m) – the figures are 82m and 42m barrels.

Further reserves have meanwhile been found at the nearby Skua field and last week BHP Petroleum reported an oil flow from Chinook, much further west in the North West Shelf area.

Given that Bass Strait reserves are becoming depleted, this is welcome. However, it does not mean that Australia will halt its increasing dependence on outside supplies.

For BHP, the Timor Sea is important because it has brought the group credibility within the international oil industry.

The steel, minerals and petroleum giant has long been involved in oil through the Bass Strait operations. However, Esso is the operator there and BHP has been something of a passenger.

Jabiru and Challis have changed that. Of BHP Petroleum's overall net profit of A$338m for the year to May, some A$60m came from the Timor Sea. The aim is to lift that figure to A$100m with the Challis production.

The Timor Sea is bringing other advantages too. One is a shift in the group's Australian oil activity away from the high-tax Bass Strait to a lower tax area. Another is lower costs. While exploration is expensive, BHP says its operating costs in the Timor Sea are under US$1.00 per barrel.

The Timor Sea is also a key part of a wider oil strategy. Under Mr Peter Willcox, an Englishman recruited from Amoco, BHP Petroleum over the past three years has built a portfolio of international oilfield interests of diverse maturities and moved downstream into the refining business.

It has acquired the Wichita-based Energy Resources Group, Monsanto Oil and Hamilton Oil for a total of A$2.2bn, making BHP Australia's largest single US investor in the past five years. ERG and Monsanto gave the group exploration and production interests in the US. Hamilton did the same in the North Sea.

The group has at the same time acquired exploration acreage in South America (Guyana and Argentina), Africa (Algeria, Egypt and Congo), the Middle East and Asia (Indonesia, Papua New Guinea and India). It drilled its first overseas well as operator last December, in Dubai.

BHP Petroleum's ambitious refining move came this year, with the US$378m acquisition of Pacific Resources Incorporated (PRI), which has a 80,000 barrels a day refinery in Hawaii.

The 17-year-old facility is being upgraded, and PRI is being made responsible for BHP Petroleum's marketing and trading operations. As a Pacific refiner with a US base, PRI is strategically placed to buy or sell crude all round the Pacific Rim, including Alaska.

The final element in BHP Petroleum's overall strategy focuses on gas – the massive North West Shelf project, in which it has a direct interest.

With concern growing over nuclear power and coal's greenhouse effect, the group has high hopes for gas. As a substantial proportion of BHP's overall petroleum production is in less volatile long-term gas contracts, the group sees itself becoming more independent of international oil price fluctuations.

Indeed, taking oil and gas reserves together, BHP Petroleum is believed to be the 11th largest non state-owned oil company in the world. However, it has a long way to go to catch up with its bigger counterparts.

Similarly, although its profits make it a large company by Australian standards, BHP's Petroleum's contribution to the group's overall profit is less than both its steel and its minerals divisions. But the Timor Sea will help alter that.

WORLD COMMODITIES PRICES

LONDON MARKETS

LONDON METAL Exchange copper prices yesterday resumed their recent rally following Monday's shake-out. Prices were pared back towards close because of dollar weakness but the cash position still ended £43 up on the day at £1,553 a tonne, while the three months quotation closed at £1,520.50 a tonne, up £38. Dealers noted, however, that the three months price was marginally below last week's "spike" of $2,440 a tonne, and appeared still to be held by resistance around that area. Zinc prices regained some of Monday's sharpish fall as concern about the situation in Peru (both guerrilla activity against mines and a threatened miners' strike), coupled with news that the expected lifting of the force majeure at Spain's Asturiana had not yet been implemented, boosted the cash price $25 to $1,645 a tonne.

US MARKETS

IN THE METALS, gold, silver and platinum prices seemed unaffected by the latest U.S. trade figures, reports Drexel Burnham Lambert. Gold remained steady while silver edged lower in quiet dealings. Platinum prices slipped in technical action. Copper posted strong gains from elected buy stops near the close. In the softs, sugar trading featured sideways with prices closing up 28, basis October. Cocoa fell slightly as scattered profit taking prevented further gains. Local short covering supported the coffee market. Scattered trade buying lifted the cotton futures slightly. Orange juice continued its fall with heavy trade selling due to the July expiration. The livestocks were all lower with belly futures posting the biggest decline. Friday's expected bearish cold storage report and lower cash prices weighed down the bellies. Increased runs kept live hogs weak. Scattered liquidation was featured in the cattle market. In the grains, prices fell in most of the soy complex due to rain predictions. July soyabeans were higher from a short covering rally. Corn futures sank from spillover selling.

LONDON STOCK EXCHANGE

Seven-session rise in equities stalls

Influences outside Britain brought the bull run in the UK equity market — which had extended to seven consecutive trading days — to a halt yesterday in a trading session shortened by the latest in a series of once weekly rail strikes.

The US trade figures for May at the very bottom of market estimates were behind an initial slide on Wall Street and the influence produced a damaging reaction in the London market. The FT-SE 100-share index was finally upended and 1.8 off at 2,273.1.

The day's trading had begun very promisingly, according to dealers. Takeover speculation that had stimulated big gains throughout equity sectors in recent days reappeared early yesterday morning and drove many share prices sharply higher. In the process, the FT-SE 100-share index moved ahead to touch a post-crash trading best of 2,284.5.

The mood in the market quickly turned, however, initially after a PSBR figure showing a borrowing requirement of £700m against forecasts of a £100m surplus, announced at 11.30 and, more importantly, after the American trade numbers were released. The performance of the Footsie demonstrated the market's reaction to the data. At its best, up 9.6 at 2,284.5 some forty-five minutes before the UK PSBR figures, the index subsequently ran back to show a day's low point — down 6.5 at 2,268.4 within eight minutes of the US trade figures being published.

Turnover, too, was an indicator of a nervous performance from an equity market also unsettled by industrial unrest in the UK. Yesterday saw 436.8m shares traded, well short of Monday's equity disappointing level of 515.5m; last week saw in excess of 700m shares changing hands on two separate days.

The electronics, insurance and oil sectors were alive with speculation. Ferranti was prominent on stories of possible stakebuilding moves and an eventual bid was hinted at around the dealing rooms.

On external influences, the US trade deficit for May of $10.24bn was described by one specialist as "very bad" and saw Wall Street down some 11 points in early trading. One US analyst said that the Wall Street market was "not so much different from ours; the institutions are stuffed with cash and are too scared to be out of the market."

But many Wall Street watchers felt that a clearer direction would follow the so-called Humphrey Hawkins Testimony, scheduled to be given to the US Congress by Mr Alan Greenspan, the Federal Reserve Board chairman, on Thursday. "The Fed will almost certainly project a soft landing for the US economy," said Mr Mark Brown at UBS Phillips & Drew, the stockbroker.

Account Dealing Dates

First Dealings:	Jul 3	Jul 17	Jul 31
Option Declarations:	Jul 13	Jul 27	Aug 10
Last Dealings:	Jul 14	Jul 28	Aug 11
Account Day:	Jul 24	Aug 7	Aug 21

New time dealings may take place from 9.00 am two business days earlier.

FINANCIAL TIMES STOCK INDICES

	July 18	July 17	July 14	July 13	July 12	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	86.40	86.50	86.46	86.14	86.08	87.74	88.29 (8/2)	85.75 (14/6)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	95.58	95.93	95.95	95.84	95.86	97.36	98.59 (15/2)	95.21 (13/6)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1883.3	1880.2	1888.4	1868.0	1858.3	1480.8	1886.4 (14/7)	1447.8 (3/1)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	200.1	201.5	202.1	201.6	203.0	215.6	208.0 (7/7)	164.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2273.1	2274.9	2273.7	2258.0	2255.7	1844.8	2274.9 (17/7)	1782.8 (3/1)	2443.4 (16/7/87)	986.9 (23/7/84)
Ord. Div. Yield	4.28	4.29	4.29	4.33	4.34	4.54				
Earning Yld %(full)	10.04	10.05	10.05	10.15	10.18	11.35				
P/E Ratio(net)(*)	12.00	11.98	11.99	11.87	11.84	10.80				
SEAQ Bargains(5pm)	24,490	31,419	41,203	32,517	34,883	24,368				
Equity Turnover(£m)	-	1337.01	1749.55	1374.80	1537.62	1044.30				
Equity Bargains†	-	38,362	43,055	37,160	42,725	30,024				
Shares Traded (ml)†	-	609.5	757.3	483.1	686.5	440.3				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ¤ Nil 11.88

Ordinary Share Index, Hourly changes — Day's High 1889.2 — Day's Low 1876.5

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1877.8	1882.5	1889.1	1883.9	1885.1	1879.4	1881.3	1883.3

FT-SE, Hourly changes — Day's High 2284.5 — Day's Low 2268.4

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2273.9	2277.8	2283.7	2277.3	2275.9	2271.6	2273.0	2273.9

S.E. ACTIVITY

Indices	July 17	July 14
Gilt Edged Bargains	89.5	110.2
Equity Bargains	248.6	279.3
Equity Value	2702.4	3538.3
5-Day average		
Gilt Edged Bargains	95.2	94.3
Equity Bargains	257.8	262.2
Equity Value	3314.0	3259.5

SE Activity data 1984. †Excluding intra-market business. London Report and latest Share Index: Tel. 0898 123001.

Late action in S and N

Scottish & Newcastle, the brewing and hotels group, took off in late trading on speculation that Australian group Elders IXL had sold its near 24 per cent stake. This story was subsequently joined by another: that S&N had found a buyer for its Thistle Hotels chain for a handsome price. The rumours sent the shares to a high of 375p before the buyers ran out, and the price slipped back to end 13 better at 367p on turnover of 2.4m shares.

Labatt Brewing, the Canadian group, was reported as the buyer of the Elders holding. Labatt recently signed licensing deals with several regional brewers in the UK and bought a 70 per cent stake in two Italian breweries. It was plausible, said dealers, that Labatt would want to use the S&N stake to launch a full bid as part of its development into Europe. However, a spokesman for Labatt subsequently denied that it had bought the Elders holding, and said that the company had no intention of bidding for Scottish & Newcastle.

The Thistle Hotels story found favour later on. Several months ago analysts were putting a price of around £500m on Thistle, but since S&N announced it was putting the chain up for sale earlier this month, analysts have revised their estimates to nearer £700m. S&N is hoping for a quick sale, say researchers, in order to capitalise on the very high prices that are now being achieved for hotel properties.

Cautious C&W

A cautious statement at the Cable & Wireless annual meeting quickly prompted Mr Jack Summerscale, who heads the electricals research team at BZW, to trim his profit forecast for the current year by £14m to £520m. That figure is still within the range of other analysts' predictions. He also changed his recommendation from buy to weak buy, although is "maintaining a positive long-term stance."

Mr Summerscale singled out part of the C&W statement which said that prospects for Mercury, its subsidiary and the only licenced competitor to British Telecom, should not be evaluated as if it were a cellular company. The statement also referred to steady, rather than vigorous, progress at Mercury. C&W closed 18 lower at 528p on turnover of 3.8m shares.

Dealers also suggested that C&W had been hurt by the announcement that Plessey, GEC and BellSouth of the US had formed a consortium to run a PCN service that would be an alternative to Mercury's. C&W has been strong for several days on analysts' bullish predictions for the PCN business. Mr Summerscale said, however, that the consortium announcement would help Mercury in that it was vital to have highly credible players when it came to convincing businesses to become customers of an untried technology.

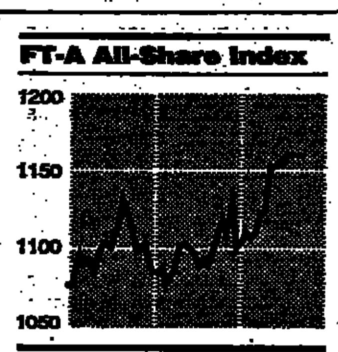
More Lonrho stories

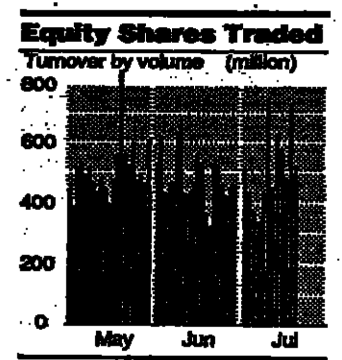
Lonrho traded well, rising to 313p before closing 5 up on balance at 310p, although analysts dismissed a report that Minorco, after failing to get Cons Gold, would buy Mr Alan Bond's 20.4 per cent stake and bid for the group. One follower of the stock said that Lonrho's interests, other than mining, do not fit in with Minorco's ambitions to be a worldwide natural resources group. Also, chairman Sir Michael Edwardes was unlikely to want to tangle with Lonrho chief Mr Tiny Rowland.

More likely was a placing of the shares in London. Chartists are suggesting a short-term breakout in Lonrho shares to 330p which, in ex scrip issue form, equates to around the price demanded by Mr Bond when the stake was unsuccessfully offered for auction. There were also stories that it may be sold to a Japanese buyer, placed in the Tokyo market and never allowed to return — found by Lonrho itself. Yesterday's volume was the highest for some considerable at 7.5m shares but inquiries failed as the wider market gave back its gain.

Leading electricals stocks were stimulated by the announcement that GEC and Plessey were forming a consortium with BellSouth of the US, to bid for a licence to run one of the UK's new mobile communications networks.

The perceived victim of the tie-up is Racal, which operates one of Britain's two existing cellular telephone services. Racal has been much sought after in recent weeks, especially by US investors. The stock has received repeated upratings on the back of cellular companies bids in the US, and analysts have forecast spectacular earnings from its UK Vodafone operation.





Dealers said that US demand for the stock might be reined back when BellSouth puts its side of the story on the UK mobile telephone industry. It is well placed to tell Wall Street of the challenge posed to Racal's cellular revenues by the new personal communication network (PCN).

Racal Electronics fell 15 to 430p, making a two-day fall of 30, as a solid 4.9m shares changed hands. Racal Telecom shed 11 to close at 386p. GEC edged 2 easier to 261p while Plessey firmed a penny to 253p, both on good volume.

The oil sector was alive with stories that a bid, involving Burmah/Calor/Premier and possibly British Gas, could be imminent. Shares in the first three stocks mentioned raced higher while those of Gas marked time.

The early story was that Burmah was seeking to acquire a 29 per cent holding in Calor from Dutch company SHV in exchange for a 15 per cent stake in itself. Burmah launched an offer for Calor back in 1987, a bid that was subsequently withdrawn when the Calor board opposed the bid. The 15 per cent stake in Burmah would be created, so the story went, via an issue of new shares.

There were variations on this theme, with another story suggesting Burmah would take the entire SHV stake of 42 per cent in Calor in exchange for a 20 per cent stake in Burmah and then bid for the rest of Calor's equity, financed by selling its 29 per cent holding in Premier.

Mr Terence Jagger, Burmah's Head of Public Affairs, said the stories were "absolutely unfounded" while a Calor spokesman said that he would not comment on rumours.

Another twist in the saga came with talk that British Gas could be interested in acquiring Calor. Hoare Govett, Gas's brokers, were strong buyers of Calor shares yesterday. Analysts were sceptical of all the rumours in the market, but one conceded there was "a compelling logic" to the argument of a Calor/Burmah deal "from the taxation point of view."

Burmah shares raced up to 641p before closing a net 12 higher at 631p on turnover of 2.2m. Calor advanced 23 to 414p on 1.9m while Premier added 5 to 114p. British Gas were fractionally ahead at 186p.

Abbey National improved after Monday's poor display, the shares adding 2½ at 147½p on turnover of 17m.

Among mixed insurers Sun Life fell sharply, dropping 45 to 1048p in thin trade. The stock has performed strongly in recent sessions on talk that UAP, the French insurance group, was adding to its stake. The demand from UAP has now dried up, and investors grabbed the chance to take profits. Fears of a rights issue could restrict future gains in Sun Life, warned dealers.

In the composites, Commercial Union added 6½ at 419p in active trading; Adelaide Steamship, the Australian group which last week upped its stake to 13 per cent, could have been behind some of the buying, said dealers.

Adsteam also has an interest in Royal Insurance, which picked up late to end at 426p, up 11 on moderate trade.

Good investment demand coupled with traded options activity moved Blue Circle Industries up 9 to 554p but interest in other building majors remained light. Revived speculation of Caradon being ready to pounce excited Marley, finally 7 higher at 161p, but Evode lost 5 to 173p as analysts urged caution after the interim figures. BZW rate the stock a hold/sell.

The electrical sector was alive with news of corporate tie-ups, company results and bid talk.

Apart from events at GEC, Plessey, Racal and Cable & Wireless, several stories stimulated interest in Ferranti. It closed 1¼ better at 88p on strong turnover of 8.7m shares. The most popular story was that Daimler Benz of West Germany had accumulated a near 5 per cent stake.

Mr James Dodds, of Kleinwort Benson, said that a possible tie-up would make sense. "Daimler Benz has taken a position in Matra of France so it is logical that they would be interested in a UK defence presence." However, Mr Piers Whitehead at Robert Fleming was more sceptical, pointing to possible objections from the UK Ministry of Defence. The MoD has been involved in protracted talks with the participants in another Anglo-German defence-related takeover attempt, of Plessey by GEC and Siemens.

Dalgety jumped 12 to 390p on turnover of 2.1m shares after Mr Terry Pryce, the chief executive, announced he was leaving the company; Mr Robert Holmes à Court, the Australian entrepreneur, has a 5 per cent stake in the UK group, and some dealers were suggesting that the departure of Mr Pryce could leave Dalgety more vulnerable to a bid.

Analysts were little the wiser after confirmation of acomplex merger between two funeral groups, Hodgson Holdings and Kenyons, involving a new company and a stake held by French investors "We are all still very confused and short of details", said one. "At least it is unlikely to be blocked by the Monopolies and Mergers Commission because there is little geographical overlap." Hodgsons closed 19 better at 173p, the convertible improved 5 to 88p, after 90p, while USM-quoted Kenyon jumped 30 to 188p.

De la Rue's announcement that it intended selling its Crosfield group to Du Pont and Fuji Photo for £235m added just 3 to the share price, which ended at 359p. "De la Rue got a good price," said Ms Chris Munro, analyst at Hoare Govett. The stock has been volatile since the end of last week when it was revealed that De la Rue had been in talks over the ownership of Crosfield with a company chaired by Mr Robert Maxwell.

Hampson Industries posted a 46 per cent jump in full-year profits and proposed a one-for-five scrip issue. The combination added 8 to the shares, which closed at 88p.

Several motor stocks retained their gains. Jaguar came into the picture late and closed 10 firmer at 379p while Lucas Industries improved further to end at 650p, up 11. Distributors traded more irregularly with Central Motor Auctions rising 7 to 120p and Evans Halshaw losing that much to 262p.

Property group Helical Bar firmed 5 to 348p after the company bought 600,000 shares at 350p for cancellation. The rest of the sector was mostly weaker in thin trade, although Rosehaugh put in a rise of 4 to 646p, after 652p, and Arlington Securities added 3 at 316p, after 300p. The market believes a deal between British Aerospace and Arlington could be announced today.

Resumed speculation that a UK or European agency was lining the company up lifted Geers Gross 5 to 91p.

Courtaulds reacted as some investors opted to realise the substantial capital gains achieved over the past few months and the shares finished 8 lower at 372p; the tenor of the chairman's statement at yesterday's annual meeting was broadly encouraging.

BAT Industries and Rothmans International were others to run into profit-taking

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 26

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]				[illegible]				[illegible]				[illegible]			
Bass	447	1053		Granada	404	383	+4	Pearl	302	492	-4	Sun Alliance	662	290	
Beecham	1,900	628	-1	Grand Met.	1,300	594	-4	Pearson	461	747	-12	T&N	280	240	-1
Blue Circle	2,080	555	+10	GUS A	101	1085	-4	P & O	399	669	-4	TSB	738	167	
Boots	2,100	288		GRE	2,700	226	+5	Pilkington	2,100	245½	+1½	[illegible]	1,000	309	+4
Brit. & Comm.	336	170	+2	GKN	2,500	422	+10	Plessey	2,265	253	+1	Tate & Lyle	1,000	283	
Brit. Aerospace	638	721	-4	Guinness	2,400	527	+2	Polly Peck Intl.	112	294		Taylor Woodrow	126	331	
British Airways	1,800	202½	-4½	Hammerson "A"	80	793	-11	Prudential	4,300	192	+1	Tesco	1,900	197	+2
British Gas	9,900	186	+1	Hanson	6,400	224½	-1	[illegible]	807	461	-2	[illegible]	38	781	-4
British Land	287	381	-1	Harrisons & Cros.	167	[illegible]	-1	[illegible]	237	749	+4	Trafalgar House	1,400	369	-3
BP	6,200	305	+½	[illegible]	459	758	+13	RTZ	498	507	+1	Trusthouse Forte	956	335	
British Steel	15,000	77½		Hillsdown Hldgs	3,900	294	+2	Racal	4,900	430	-15	Ultramar	5,800	328	+3
British Telecom	1,800	261½	-2	IMI	484	345	+2	Rank Org.	298	957	+8	Unilever	3,700	649	+2
Burmah Oil	2,200	631	+12	Imp. Chem.	1,200	1271	-12	Reckitt & Colman	173	1198	-13	United Biscuits	3,100	408	-4
Burton	2,100	252	-4	Inchcape	371	281	-1	Redland	360	617		Utd. Newspapers	117	491	-2
Cable & Wireless	3,800	523	-18	Jaguar	1,600	379	+10	Reed International	1,200	451	-6	Wellcome	87	443	
Cadbury Schweppes	4,000	443	-5	Kingfisher	356	330	-1	Reuters	587	772	-13	Whitbread "A"	548	362	-1
Carlton Comms.	129	815	-5	Ladbroke	1,800	314	+4	Rolls Royce	3,500	189½	+3	Williams Hldgs.	3,100	257	
Commercial Union	1,400	419	+6½	Land Securities	1,900	598	-13	Rothmans	308	620	-8	Wimpey	1,000	282	+3

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (118). [illegible] Davy, Downiebrae, Eadie, GEI Int'l, GKN, Hawker Siddeley, IMI, Hidgz, Powerscreen Int'l., Renold, SKF AB, Savile Gordon, Spirax-Sarco, Staveley Inds., Tellox, Verson Int'l., Wheeoe, Whatway, FOODS (5) Ass. Brit. Foods, BSN, Dalgety, Kwik Save, Tesco, INDUSTRIALS (16) Alfa-Laval AB "B", BIMEC Inds., Blue Arrow, Eastern Prod., Gt. Southern, Hampson Inds., Johnson Matthey, Kenyon Secs., Macfarlane, Min. & Allied Spplo., Parkfield Grp., RKF Grp., Schlumberger, Siebe, Sotheby's Hlds. Inc. [illegible] OILS (7) Brit. Petroleum, Burmah, Clyde Petroleum, Ex. Co Louisiana, Floyd Energy, Hardy Oil & Gas, Premier Cons., OVERSEAS TRADERS (1) Lonrho, MINES (1).

NEW LOWS (17). AMERICANS (2) CHEMICALS (1) Wardle Storeys, ELECTRICALS (2) Crystalate, Ferranti, INDUSTRIALS (1) Avon Rubber, LEISURE (3) MOTORS (2) PAPERS (1) PROPERTY (2) Merlin Int'l. Props., Peel, TRUSTS (3) THIRD MARKET (1).

FT LAW REPORTS

Revenue US bond decision stands

REGINA v INLAND REVENUE COMMISSIONERS, EX PARTE MFK UNDERWRITING AGENTS LTD
Queen's Bench Divisional Court (Lord Justice Bingham and Mr Justice Judge): July 7 1989

CONSISTENCY of Revenue opinion as to the appropriate tax on US and Canadian indexed-linked bonds did not amount to a binding representation or to a legitimate expectation as to future tax treatment in the Lloyd's market as a whole, in that it was not given in a statement formally published to the world at large or in clear, unambiguous and unqualified terms in response to a request for a fully-considered ruling.

The Divisional Court so held when refusing applications by MFK Underwriting Agents Ltd and four other applicants, for judicial review of the Inland Revenue's decision, contrary to previously expressed opinion, that the indexation element of US or Canadian index-linked bonds should be taxed as income, not capital.

The four other applicants were DP Mann Underwriting Agency Ltd, RJ Kiln & Co Ltd, Merritt Underwriting Agency Ltd and Pieri (Underwriting Agencies) Ltd.

LORD JUSTICE BINGHAM said that premium income received by Lloyd's underwriters in US or Canadian dollars was required to be held in dollar accounts or invested in dollar securities.

Between April 1986 and October 1988 some 62 issues of index-linked bonds were made, mostly in American but some in Canadian dollars.

They were widely bought by Lloyd's underwriting agents on behalf of their syndicates, the total investment being some £2bn.

The Finance Act 1984 provided that where deep discounted securities bore low or zero interest rates but were issued at corresponding discount to redemption value, the gain realised on sale and redemption became chargeable to income tax not, as previously, to capital gains tax.

During the period with which the case was concerned tax on income was higher than on capital gains.

After the 1984 Act, correspondence and meetings took place in which banks, solicitors, accountants, underwriting agents, and investment advisers sought confirmation of Revenue officials that gains on disposal, end year revaluation, or redemption of US or Canadian index-linked bonds would be treated as capital gains.

On May 14 1985 Citibank wrote to a principal inspector of taxes seeking confirmation that gains in respect of a proposed issue of US index-linked stocks should be treated as capital gains.

It received confirmation that if the amount payable on redemption were determined by the Consumer Price Index the security would not be a deep discount security for the purposes of the 1984 Act, and that the premium paid on redemption would be assessable to capital gains tax.

Citibank did not make the issue and the correspondence was not circulated on the Lloyd's market, but the applicant relied on it as showing the consistency of the Revenue response.

Similar confirmation was given in other cases of proposed bond issues. In one case the Revenue official referred to the difficulty of dealing with urgent requests "in depth" due to pressure of work. In another he made it clear he had little time to consider the matter. In another case two Lloyd's syndicates were encouraged by the official's sympathetic reaction to index-linked bonds but did not, on the evidence, believe him to have given a ruling or considered statement of the Revenue's position, and did not seek his confirmation in writing.

On October 27 1988 the Director General of the Inland Revenue wrote to Lloyd's with regard to inflation indexed bonds issued through Chemical Bank by the Student Loan Marketing Association (Sallie Mae).

He said the Revenue was advised that in law the purported capital component in the return was income and should be taxed as such. He said that in the case of three-year Sallie Mae bonds the Revenue regarded itself as bound by assurances that it would not seek to impose tax on an income basis.

In respect of other bonds where it had been advised that no binding assurance had been given it intended to assess bondholders on the basis that the purported capital element was income. It would apply the same treatment to other indexed linked bonds issued to Lloyd's members.

There were before the court five applications by Lloyd's underwriting agents and syndicates, for judicial review of that decision. In addition to the five applications there were some 29 other applications to similar effect. The court was told that in all 34 applications some £60m tax was at stake.

The court was not concerned with the correct tax treatment of the bonds. It was concerned with the question whether the Revenue, by its words and conduct, had precluded itself from seeking to tax the indexation uplift element on the bonds as capital gain.

The facts differed somewhat from case to case, but the central complaint was the same.

In each case it was said agents had bought US or Canadian index-linked bonds on an indication, assurance or representation by the Revenue that the indexation uplift reflected in the sale price or redemption value of the bond would be taxed as a capital gain and not as income

The thrust of the applicants' argument was that the Revenue had repeatedly made known its view of the bonds. It was said it would be grossly unfair and an abuse of the Revenue's statutory powers, if it were now free to alter its position with retrospective effect to the prejudice of the applicants.

Mr Beloff for the Revenue accepted that it was not immune from judicial review and that unfairness might amount to abuse of power, but he said that judicial review could not oblige the Revenue to act contrary to its statutory duty.

In *Preston [1985] AC 835* Lord Templeman said the appellant was entitled to judicial review for "unfairness" amounting to abuse of power if the Inland Revenue Commissioners had been "guilty of conduct equivalent to a breach of contract or breach of representation."

In assessing the meaning, weight and effect reasonably to be given to Revenue statements, the factual context, including the position of the Revenue itself was all-important.

Every ordinarily sophisticated taxpayer knew the Revenue was a tax-collecting agency, not a tax-imposing authority. The taxpayer's only legitimate expectation was *prima facie* that he would be taxed according to statute.

No doubt a statement formally published by the Revenue to the world might be safely regarded as binding. But where the approach to the Revenue was of a less formal nature, a more detailed enquiry was necessary.

First, the taxpayer must have put all his cards on the table. That meant he must have given full details of the specific transaction on which he sought the Revenue's ruling, unless it was the same as an earlier transaction on which a ruling had already been given.

It meant he must have indicated to the Revenue the ruling sought. It meant he must have made it plain that a fully considered ruling was sought.

Secondly, the ruling or statement relied on should be clear, unambiguous, and unqualified.

Those requirements did not diminish the valuable doctrine of legitimate expectation.

If a public authority conducted itself so as to create a legitimate expectation that a certain course would be followed, it would often be unfair if it were permitted to follow a different course to the detriment of one who entertained the expectation, particularly if he acted on it.

The doctrine of legitimate expectation was rooted in fairness. But fairness was not a one way street. On facts such as the present it would not be fair to hold the Revenue bound by anything less than a clear, unambiguous and unqualified representation.

In the present case the correspondence did not create a legitimate expectation that the Revenue would not tax later issues of bonds on what it believed to be correct principles, whether that accorded with earlier expressions of opinion or not.

It could not fairly be read as giving a general assurance as to future tax treatment, to the Lloyd's market as a whole.

The Revenue had not promised to follow or indicated that it would follow a certain course so as to render any departure from that course unfair.

There was no abuse of power. Relief was refused.

Mr Justice Judge agreed.

For the Revenue: Michael Beloff QC, Alan Moses, Nicholas Warren and Alison Foster (solicitor, Inland Revenue)

For the applicants: Jonathan Sumption QC, Colin Rimer QC, David Milne QC, Charles Flint and David Pannick (Ashurst Morris Crisp, Carter Faber, Barlow Lyde & Gilbert, Titmuss Sainer & Webb, Clyde & Co)

APPOINTMENTS

Product development chief, Ford Europe

■ Mr John Oldfield has been appointed vice president, product development, for FORD OF EUROPE, from August 1. He was executive director in charge of product development programme offices, and succeeds Mr Kenneth K. Kohrs, who returns to the US as vice president, car programmes management and powertrain planning and engineering. Mr Oldfield joined Ford of Britain in 1958, and the Ford of Europe product development team in 1966. He has also worked for Ford in the US and Brazil.

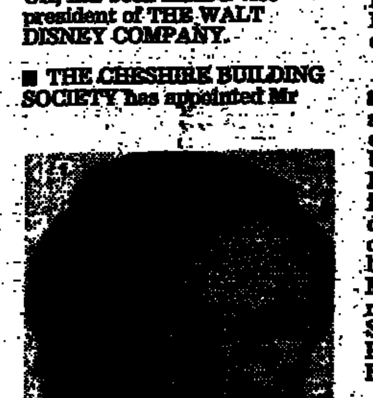
■ Mr R.C. Buckland has been appointed managing director of the UK division of SEDGWICK EUROPE GROUP in addition to his chairmanship of Sedgwick UK (London).

■ Mr Stuart Hollander has been appointed chairman of the NATIONAL ECONOMIC DEVELOPMENT COUNCIL's garment manufacturer-retailer panels.

■ YALE AND VALOR is merging its small appliance and water heating divisions to create an electrical products division of which Mr John Ellis has been appointed managing director. Previously he headed the water heating division. Mr Brian Wolfe has been appointed to the new post of director, business development. He was managing director of the small appliance division.

■ Ms Renee Deutsch, managing director of Walt Disney Consumer Products, UK, has been made a vice president of THE WALT DISNEY COMPANY.

■ THE CHESHIRE BUILDING SOCIETY has appointed Mr Jim Dawson as assistant general manager - finance.



NATIONAL & PROVINCIAL FINANCIAL SERVICES has appointed Mr Michael Stevens *(above)* as director of insurance and investment. He was network director, personal financial services division, Midland Bank Group.

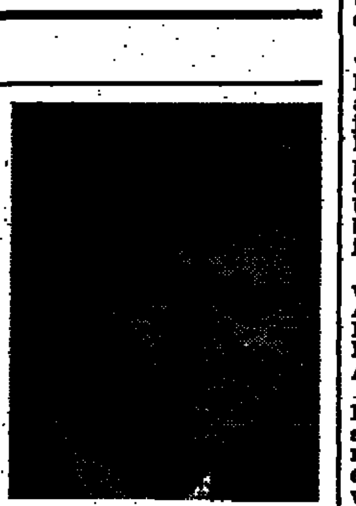
■ Mr Jack Brittain, general manager, has been promoted to managing director of RANK CINTEL.

■ HITACHI has promoted the following to divisional director: Mr Norman Becker, domestic appliances; Mr David Ellins, financial services; Mr Colin Ferrier, technical services; Mr Ian Hadley, consumer electronics.

■ Mr Rodger Booth has been appointed chief operating officer designate of BEMROSE UK, to succeed Mr Peter Brewin when he retires early in 1990. Mr Booth is managing director of Henry Booth, part of the group, and is on the board of Bemrose Corporation. Mr Graham Bennington, managing director of Bemrose Security and Promotional Printing, joins the board of Bemrose UK.

■ DAVID BROWN GEAR INDUSTRIES, Huddersfield, has appointed Mr John Sandle to head standard products division, and Mr Bob Holroyd to head custom built division. Both become joint managing directors.

■ Mr U.S. (Hughie) Todner, secretary and chief executive officer of East Mercia Co-operative Society, has been appointed chairman of the CO-OPERATIVE UNION in succession to Mr William Dixon.



Mr Peter C. Axten *(above)* has been appointed chief executive of CIGNA's financial services operations in Europe from September 1. He will be responsible for the continued development of the UK financial services activities, including Crusader Insurance, as well as expansion into Europe. Mr Axten is director of personal financial services in Midland Bank.

■ Mr Richard Gill has been appointed financial director of MGB TILES. He was company secretary.

■ Mr Nicholas Selbie has been appointed director of finance of the COMMONWEALTH DEVELOPMENT CORPORATION. He joins from Kleinwort Benson where he was director, international corporate finance.

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AUTHORISED UNIT TRUSTS

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♦ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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Windsor Trust Mngrs Ltd (1200)F
83 Kingsway, London, WC2B 6SD 01-405 8331

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
Commodity & Equity	5	63.76	66.75	71.00	+0.70	6.70
European	5	68.49	68.69	73.28	-0.2	0.09
Far Eastern	5	64.13	64.29xd	68.39	-0.29	0.64
Growth Inc	5	90.16	95.53	99.50	-0.5	1.40
Growth Acc	5	90.16	95.53	99.50	-0.5	1.40
Income Inc	5	86.61	88.40	94.04	+0.18	4.53
Income Acc	5	86.61	88.40	94.04	+0.18	4.53
Property Share	5	56.36	56.36	60.08	-0.08	0.98
Smaller Co's	5	60.10	63.28	67.32	+0.14	1.42
Nth American	5	63.01	63.01xd	67.38	+0.22	1.57
International	5	48.46	48.46xd	51.83	+0.11	1.42

Wright Seligman Fund Mngrs Ltd (1000)H
11 Blomfield St, London EC2M 7AY 01-588 0592

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
Growth	5	112.25	112.25	117.25	+2.42	4.05

Weekly dealing day Tuesday

The Yorkshire Unit Tst Mngrs Ltd (1100)F
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602290

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
Yorkshire General	5¼	64.95	67.53xd	71.82	+0.16	2.53
YGTM UK Eqty Inc Tst	5¼	61.60	63.66	67.72	-0.01	4.43
YGTM Intl Gwth Tst	5¼	51.19	51.19	54.62	-0.25	0.95

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

	Bid Price	Offer Price	+ or -	Yield Grs
Int'l Exmpt June 7	485.3	503.8	—	—

Cent. Bd. of Fin. of Church of England‡‡
2 Fore Street, London EC2Y 5AQ 01-588 1815

	Bid Price	Offer Price	+ or -	Yield Grs
Inv Fund June 30	518.35		—	4.73
Fxd Int Sec June 30	138.63		—	10.21
Deposit June 30	100.00		—	13.05

Charinco/Charishare‡‡ (1000)F
33 King William Street, EC4R 9AS 01-280 2800

	Bid Price	Offer Price	+ or -	Yield Grs
C'inco Inc July 5	165.0	169.2	+1.10	10.02
C'inco Acc July 5	677.0	694.0	+4.20	10.02
C'share Inc July 5	155.5	161.1	+4.20	3.80
C'share Acc July 5	170.9	177.1	+4.40	3.80

Charities Official Invest. Fund‡‡
2 Fore Street, London EC2Y 5AQ 01-588 1815

	Bid Price	Offer Price	+ or -	Yield Grs
Income June 30	493.06		—	5.01
Accum June 30	1644.04		—	—

[illegible]

INSURANCES

[illegible]

Albany Life Assurance Co Ltd—Contd.

	Bid Price	Offer Price	+ or -	Yield Grs
Sunrise Mngd	118.7	124.9	-0.6	—
UK Mngd	121.0	127.3	-0.3	—
N Am Pn Fd Acc	258.7	272.2	-1.2	—
Pac Basin Fd Acc	174.5	183.6	-0.6	—
Property	573.6	604.0	-2.7	—
Multi Inv Pen Acc	1485.5	1563.6	-2.3	—
Broker Funds				
Prof. Pen. Fd	98.8	103.9	-0.4	—
YBA Strategy	119.4	125.6	-0.3	—
Langham Dollar	138.0	145.2	-1.3	—

Allied Dunbar Assurance Plc
Allied Dunbar Ctr, Swindon SN1 1EL 0793 514514

	Bid Price	Offer Price	+ or -	Yield Grs
Fixed Int. Dep. Acc	262.6	276.5	—	—
Equity Acc	883.8	929.5	+0.4	—
Property Acc	502.2	528.7	-0.1	—
Far East Acc	204.7	215.5	-0.9	—
European Acc	23.4	24.7	-0.1	—
Managed Acc	693.3	729.8	+0.2	—
Managed Cap	392.8	413.5	+0.2	—
O'seas Earnings Acc	592.4	624.2	-0.9	—
Gilt Edged Acc	316.9	333.0	-0.6	—
American Equity Acc	468.8	493.5	-0.2	—
American Man Acc	217.1	228.6	+0.1	—
American Prop Acc	147.7	155.5	—	—
Pen.F.I.Dep.Cap	299.8	315.1	+0.1	—
Pen.F.I.Dep.Acc	498.0	524.3	+0.2	—
Pen. Prop. Cap	587.7	618.7	—	—
Pen. Prop. Acc	1116.3	1175.1	+0.2	—
Pen. Man. Cap	849.0	893.7	-1.3	—
Pen. Man. Acc	1610.7	1695.5	-2.3	—
Pen. Gilt Edg. Cap	318.5	335.3	+0.2	—
Pen. Gilt Edg. Acc	494.3	520.4	+0.6	—
Pen. Eq. Cap	1399.1	1472.8	-2.7	—
Pen. Eq. Acc	2011.9	2117.8	-3.6	—
Pen. Am. Eq Cap	154.6	162.8	+1.0	—
Pen. Am. Eq Acc	187.3	197.2	+1.1	—
Pen. Far East Cap	244.3	257.1	-2.5	—
Pen. Far East Acc	295.9	311.5	-3.1	—
Pen. Euro Cap	27.3	28.8	-0.1	—
Pen. Euro. Acc	29.8	31.4	-0.1	—
Pen. B.S. Acc	546.4	574.0	+0.2	—
Pen. B.S. Cap	326.9	343.3	+0.1	—
Pen. D.A.F. Acc	382.6	402.6	+0.1	—
Pen. D.A.F. Cap	246.9	259.9	+0.1	—
Pen. Mortgage Cap	146.8	154.6	—	—

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Continued on next page

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MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

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ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
99	98	Exch. 10pc 1989	99	.....	–	–
99	98	Exch 11pc 1989	99	.....	11.07	13.41
98	95	Treas 5pc 1986-89	98	.....	5.08	11.75
99	98	Exch 10¼pcCv '89	99	−	10.34	12.68
101	99	Treas 13pc 1990‡‡	100	−	12.95	12.00
130	124	Treas 2pc IL '90(84.6)	130	+	2.09	9.98
99	98	Exch 11pc 1990‡‡	99	−	11.07	12.18
101	99	Exch. 12½pc 1990	99	−	12.51	12.58
94	91	Treas. 3pc 1990	94	.....	3.17	10.13
96	95	Treas 8¼pc 1987-90‡‡	96	.....	8.51	11.89
98	95	Treas. 8pc Cv 1990 ‡‡	97	−	8.23	11.07
98	96	Treas. 10pcCv 1990	97	−	10.24	11.98
91	87	Exch 2½pc 1990	91	.....	2.72	8.98
101	98	Treas 11½pc 1991	99	−	11.77	11.83
92	89	Funding 5¾pc '87-91‡‡	92	.....	6.22	10.64
89	86	Treas. 3pc 1991	89	−	3.35	9.38
100	95	Treas 10pc Cv '91 ‡‡	97	−	10.29	11.64
101	97	Exch. 11pc 1991	99	−	11.09	11.37
94	91	Treas. 8pc 1991	93	−	8.59	11.36
106	102	Treas 12¾pc 1992‡‡	103	−	12.30	11.01
99	95	Treas 10pc 1992	97	−	10.24	11.08
94	91	Treas. 8pc 1992 ‡‡	92	−	8.62	11.11
100	96	Treas 10½pc Cv 1992‡‡	98	−	10.64	11.03
85	82	Treas. 3pc 1992	84	+	3.56	9.27
105	101	Exch. 12¼pc '92	103	−	11.87	10.99
109	104	Exch 13½pc 1992	106	−	12.68	10.89
94	90	Treas 8¼pc 1993	92	−	8.91	10.78
100	95	Treas 10pc 1993‡‡	98	−	10.21	10.66
108	103	Treas 12½pc 1993‡‡	105	−	11.82	10.68
87	84	Funding 6pc 1993‡‡	86	+	6.99	10.24
113	108	Treas 13¾pc 1993‡‡	110	−	12.43	10.61
94	89	Treas. 8½pc 1994	92	−	9.18	10.57
117	112	Treas 14½pc 1994‡‡	114	−	12.64	10.39
113	107	Exch 13½pc 1994	110	−	12.22	10.63
100	95	Treas. 10pc Ln. 1994‡‡	98	−	10.18	10.44

Five to Fifteen Years

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
110	104	Exch. 12½pc 1994	107	−	11.65	10.60
96	91	Treas 9pc 1994‡‡	94	−	9.56	10.44
108	102	Treas 12pc 1995	105	−	11.35	10.60
79	74	Exch 3pc Gas 90-95	76	+	3.92	8.17
101	95	Exch. 10¼pc 1995	98	−	10.36	10.49
113	107	Treas 12¾pc 1995‡‡	[illegible]	−	11.55	10.43
119	112	Treas. 14pc '96	115	−	12.12	10.63
97	91	Treas. 9pc 1992-96‡‡	94	−	9.57	10.25
126	119	Treas 15¼pc 1996‡‡	122	−	12.46	10.53
117	110	Exch 13¼pc 1996‡‡	113	−	11.70	10.47
101	94	Conversion 10pc 1996	97	−	10.20	10.38
118	110	Treas 13¼pc 1997‡‡	114	−	11.60	10.47

BRITISH FUNDS—Contd

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
59	55	Funding 3½pc '99-04	58	.....	6.06	8.55

Over Fifteen Years

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
102	94	Conversion 9½pc 2004	98	−	9.60	9.63
103	94	Conversion 9½pc 2005	99	−	9.58	9.60
111	102	Exch 10½pc 2005	107	−	9.79	9.59
125	115	Treas. 12½pc 2003-05	120	−	10.40	9.82
90	82	Treas. 8pc 2002-06‡‡	87	−	9.16	9.52
105	97	Conversion 9¾pc 2006	101	−	9.59	9.54
118	109	Treas. 11¾pc 2003-07	114	−	10.28	9.82
96	87	Treas 8½pc 2007 ‡‡	92	−	9.21	9.38
134	123	Treas. 13½pc '04-08	128	−	10.48	9.75
101	92	Treas. 9pc 2008 ‡‡	96	−	9.28	9.34
92	84	Treas 8pc 2009	88	−	9.07	9.29
102	93	Conv 9pc Ln 2011 ‡‡	97	−	9.21	9.24
68	62	Treas. 5½pc 2008-12‡‡	66	.....	8.41	9.10
89	82	Treas. 7¾pc 2012-15‡‡	86	.....	9.05	9.22
132	121	Exch. 12pc '13-'17	126	−	9.51	9.27

Undated

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
45	41	Consols 4pc	43	−	9.28	–
40	36	War Loan 3½pc‡‡	38	−	9.11	–
70	60	Conv. 3½pc '61 Aft	65	−	5.30	–
41	31	Treas. 3pc '66 Aft	34	−	8.59	–
30	26	Consols 2½pc	27	−	9.13	–
29	25	Treas. 2½pc	27	−	9.22	–

Index-Linked

1989 High	Low	Stock (b)	Price £	+ or −	(1)	(2)
110	103	Tr. 2pc '92‡‡(97.8)	110	+	2.33	3.12
102	94	Do. 2 '94 (102.9)	102	−	2.80	3.39
150	139	Do. 2pc '96(67.9)	150	−	3.02	3.43
127	118	Do 2½pc '01(78.3)	127	−	3.34	3.61
124	115	Do. 2½pc '03(78.8)	124	−	3.41	3.65
127	117	Do. 2pc '06(69.5)	127	−	3.46	3.65
119	110	Do. 2½pc '09(78.8)	119	−	3.46	3.65
124	114	Do. 2½pc '11(74.6)	124	−	3.46	3.64
103	95	Do. 2½pc '13(89.2)	103	−	3.44	3.60

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

LONDON SHARE SERVICE

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AMERICANS – Contd

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
20⅝	16⅞	FPL Group 1c	19⅞xd	+⅛	$2.28	–	7.3
32⅞	27⅝	Ford Motor $1	30⅞	.....	$3.00	–	6.2
45	30	GATX 62½c	45	+⅛	$2.00	–	2.8
35⅛	24¼	Gen. Elect. 63c	34	.....	$1.64	–	3.1
568p	483p	♦General Host Corp $1	483p	–7	30c	–	3.9
39⅛	18¼	Gillette $1	26	–	96c	–	2.3
987p	616p	Gt. Am. First Svgs Bk $1	810p	+9	60c	–	4.7
23⅝	16	Greyhound $1½	21¼	–	$1.32	–	3.9
14¼	847p	Hasbro Inc 50c	13	+½	16c	–	0.8
52⅝	32¾	Honeywell $1½	49⅛xd	–¼	$2.10	–	2.7
21¼	15¼	Houston Inds.‖	20⅝	+⅛	$2.96	–	9.1
74⅝	63	IBM Corpn $1¼	72¼xd	+⅞	$4.84	–	4.2
60p	45p	♦Image Storage/R.Sys.1c	55p	–2	–	–	–
26¼	18¼	Ingersoll-Rand $2	27⅛xd	+⅛	$1.20	–	2.8
33	22½	Lockheed Crpn. $1	30⅛xd	.....	$1.60	–	3.4
22⅛	15	Lone Star Inds $1	19½	.....	$1.90	–	6.2
25	17½	Louisiana Land 15c	23⅛xd	+⅛	$1.00	–	2.7
17	11½	Lowe's 50c	16¼xd	.....	48c	–	1.9
25⅛	15	Manuf. Hanover $1	24⅞	–¼	$3.28	–	8.3
20⅛	13	Merrill Lynch $1	20¼	+¼	$1.00	–	3.1
2253p	1910p	Molex Inc	2047p	–11	3.2c	–	–
27	18⅛	Morgan (JP) $2½	24xd	–⅛	$1.66	–	4.4
54½	36⅛	NYNEX $1	50⅛	.....	$4.36	–	5.5
24⅝	18¼	PHH Corp.‖	22⅞	–⅛	$1.12	–	3.1
259p	180p	♦Pacific Agr.‖	180p	.....	–	–	–
27¼	19	Pacificorp $3¼	25⅛xd	–⅛	$2.76	–	6.5
27¼	16⅞	Pacific Telesis 10c	27¼	+¼	$1.88	–	4.4
22⅛	15¼	Pall Corp 25c	21	+⅛	48c	–	1.4
55⅛	39	Pennzoil 83 1/3c	50xd	–	$3.00	–	3.7
25⅛	17	Premark Intl	23	–	84c	–	2.2
42¼	28¾	Quaker Oats $5	40	+½	$1.20	–	1.9
32⅛	23½	Rep NY Corpn $5	30⅝xd	–	$1.28	–	2.6
15⅛	11	Rockwell Intl. $1	13xd	–	78c	–	3.6
35	21⅝	Southwestern Bell $1	34	.....	$2.60	–	4.8
27⅞	17	Sun Co. Inc. $1	23¼xd	.....	$1.80	–	4.9
30¼	22	TRW Inc. 62½c	29⅞xd	–	$1.72	–	3.6
22¼	14⅛	TW Services $5	21	.....	10c	–	0.3
36¼	26¼	Tenneco $5	35xd	+⅛	$3.04	–	5.4
35	28	Texaco $6.25	35¼xd	+	♦$3.00	–	5.7
28	21⅝	Texas Instr. $1	25¼xd	–	72c	–	1.8
117	58⅝	Time Inc. $1	87⅞	–2⅛	$1.00	–	0.7
18	15	TRINOVA Corp.	17xd	+⅛	64c	–	2.4
24	16	USX $1	21¼xd	+	$1.40	–	4.1
175p	126p	♦Unilab	175p	.....	–	–	–
33	22¼	Utd. Technologies	33¼xd	–⅛	$1.60	–	3.1
158p	128p	♦Utilitech Inc.	137p	.....	–	–	–
46½	31½	US West‖	44¼	–⅛	$3.76	–	5.3
35	22⅝	Waste Management $1	34⅛xd	–⅛	48c	–	0.9
20¼	13½	Whirlpool $1	20	+⅛	$1.10	–	3.5
24⅛	16	Whitman Corp	22⅛	–	$1.02	–	2.9
36	26⅛	♦Woolworth $3½	34⅛	–	$1.88	–	3.5

CANADIANS

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
168p	129p	♦ABM Gold Corp‖	151p	+1	–	–	–
25½p	4½p	♦Abbot Energy Corp.	25p	.....	–	–	–
16⅞	902p	♦Amer. Barrick Res.	16⅞	+⅛	–	–	–
19½p	10½p	♦Armeno	16p	+3	–	–	–
344p	94p	♦Asiamerica Hldgs‖	301p	+1	–	–	–
33½p	8½p	♦Augmitto Expln.	16p	–2	–	–	–
17¼	12⅞	Bk. Montreal‖	17⅛	+⅛	$2.12	–	6.3
10⅞	655p	Bk. Nova Scot.‖	916pxd	+1	92c	–	5.2
22	17	BCE‖	21⅞	+¼	$2.44	–	5.8
848p	570p	♦Bow Valley‖	740p	–5	♦40c	–	2.8
16⅞	12¼	♦Brascan‖	16	+⅛	88c	–	2.8
228p	144p	♦Breakwater Res.	162p	–2	10c	–	3.2
17¼	11¼	Can. Imp Bank‖	15⅛	.....	$1.24	–	4.0
12⅞	997p	Can. Pacific‖	12¼	+⅛	76c	–	3.2
41½	38	Do. 4pc Deb £100	41½xd	.....	4%	–	9.6
588p	374p	Central Capital "A"‖	556p	–5	–	–	–
498p	340p	♦Corona Corp.	439p	+15	–	–	–
381p	228p	♦Cons TVX Min.	348p	+1	–	–	–
775p	524p	♦Derlan Inds.‖	668p	+3	11.75c	–	0.9
984p	751p	♦Echo Bay Mines	962p	–10	$0.07	–	0.4
572p	336p	♦ECO Corp‖	360p	+4	–	–	–
236p	182p	♦Galactic Resources	186p	+1	–	–	–
369p	243p	Gandalf Techs. Inc.	339p	+1	–	–	–
183p	129p	Granges Inc.‖	165p	+3	–	–	–
27½p	5¼p	♦Gt. Pacific Res.	8p	+¼	–	–	–
812p	651p	♦Gulf Canada‖	746p	+1	52c	–	3.6
[illegible]	10¼	♦Hawker Sid Can‖	13⅝	.....	$1.08	–	4.1
[illegible]	348p	♦Henlys Group	583p	+3	–	–	–
[illegible]	11¼	♦Hudson's Bay‖	17¼	.....	60c	–	1.8
[illegible]	[illegible]	♦Imperial Oil‖	30½	+⅛	$1.80	–	3.0
[illegible]	[illegible]	[illegible]	18½	.....	$0.80	–	2.7
[illegible]	[illegible]	♦[illegible] Nat. Gas $1	764p	.....	60c	–	4.0
[illegible]	[illegible]	♦Madeleine Mines	152p	–5	–	–	–
[illegible]	[illegible]	♦[illegible] Expln.	144p	+3	–	–	–
[illegible]	[illegible]	♦Nevada Goldfields	90p	–3	–	–	–
[illegible]	[illegible]	Nova Corp of Alberta	549p	+5	42c	–	3.9
[illegible]	10	♦Rio Algom	13	.....	85c	–	3.4
25	17¼	Royal Bk. Can.‖	23⅛xd	+¼	$2.20	–	4.8
50½	33¼	Seagram‖	46⅝	+½	US$1.40	–	1.9
112p	74½p	♦Sonora Gold Corp‖	101p	+1	–	–	–
109p	51p	♦Tam Pure Tech. Corp‖	55p	.....	–	–	–
11⅛	806p	Toronto-Dom. Bk‖	11¼	.....	66c	–	3.2
820p	686p	♦Trans Can Pipe	766p	+8	68c	–	4.6
184p	152p	Varity Corp‖	162p	+3	–	–	–

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

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INSURANCES—Contd

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible]

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	97	.....
Craig & Rose £1	638	+10
Finlay Pkg. 5p	88	.....
Holt (Jos) 25p	1343	.....

IRISH

Cap. 8½% Ln. 1991	£98½	.....
9pc Cap Ln. 1996	£101¼	.....
Fin. 13% 97/02	£122	+½
Arnotts	410	.....
Carrol (P.J.)	155	.....
Hall (R. & H.)	170	.....
Helton Hldgs	81	+1
Irish Ropes	203	.....
United Drug	135	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	38
Amstrad	11
BAT	88
BOC Grp	42
BSR	6½
BTR	32
Barclays	42
Beecham	50
Blue Circle	48
Boots	25
Bowaters	44
Brit Aerospace	52
British Steel	7½
Brit. Telecom	21
Burton Ord	18
Cadburys	46
Charter Cons	48
Comm Union	32
Courtaulds	30
FKI Babcock	14
FNFC	22
Gen Accident	85
GEC	20
Glaxo	130
Grand Met	48
GUS 'A'	90
Guardian	18
GKN	34
Hanson	16
Hawker Sidd	60
ICI	100
Jaguar	28
Ladbroke	28
Legal & Gen	26
Lex Service	33
Lloyds Bank	29
Lucas Inds	58
Marks & Spencer	15
Midland Bk	38
Morgan Grenfell	24
Nat West Bk	25
P & O Dfd	55
Plessey	22
Polly Peck	26
Racal Elect	40
RHM	42
Rank Org Ord	80
Reed Intnl	54
STC	32
Sears	10
TI	38
TSB	10
Tesco	14
Thorn EMI	58
Trust Houses	24
T&N	18
Unilever	46
Vickers	18
Wellcome	42

Property

Brit Land	32
Land Securities	52
MEPC	58
Randsworth	28

Oils

Brit Petroleum	21
Burmah Oil	58
Calor	35
Charterhall	2½
Premier	9
Shell	32
Ultramar	26

Mines

Cons Gold	100
Lonrho	30
RTZ	48

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Trade figures depress dollar

THE DOLLAR reversed a firmer tone in early trading yesterday to finish well down from Monday's closing levels. The US unit moved up to touch resistance at DM1.9170 in the morning, but it soon fell back for lack of demand. Most investors were waiting for the release of US trade data for May.

Investor demand was sufficient to push the dollar through DM1.9200 before the figures were known, but this was quickly turned around after the release of trade data showing a May deficit of $10.2bn against a $8.29bn shortfall in April.

Some investors had been persuaded of the possibility of a contraction in the US deficit and had taken out long positions in the dollar. In the event, US imports were higher during the month, which some investors took as a sign that the US Federal Reserve is unlikely to cut interest rates in the short term. Moreover, the dollar's fall below support at DM1.8950 suggests that investors will test support at DM1.8750.

The dollar closed at DM1.8935 from DM1.9065 and Y141.40 compared with Y141.55. Elsewhere, it finished at SFr1.6415 from SFr1.6470 and FFr6.4225 against FFr6.4650. On Bank of England figures, the dollar's exchange rate index fell to 70.3 from 70.6.

Sterling tracked the fortunes of the dollar for much of the day, and showed little overall change until the US unit slipped on the worse than expected trade data. This boosted the pound's exchange rate index to a high of 92.5 from 92.2 at the opening but it finished at 92.3 against 92.2 on Monday.

The pound closed at $1.6265 from $1.6145 but rose against the D-Mark to DM3.0800 from DM3.0775. It was also higher against the yen at Y230.00 from Y228.50. Elsewhere, it finished at SFr2.6700 from SFr2.6600 and FFr10.4450 from FFr10.4375.

However, the pound took something of a back seat yesterday. This was partly explained by the attention afforded to the US trade figures, but there was also a good deal of uncertainty ahead of the release today of UK money supply figures. These are expected to show that bank lending is still high and this could test the confidence of overseas investors and their faith in the UK Government's anti-inflationary policies.

The D-Mark was higher during the morning against the French franc as the latter showed a larger fall against the dollar than the D-Mark. However, the trend was reversed in the afternoon and the D-Mark came back to finish at FFr3.3920 from FFr3.3930. The West German unit showed an improvement against the yen, finishing at Y74.68 from Y74.24 on Monday.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu July.18	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.3910	+2.20	+0.95	±1.5424
Danish Krone	7.85212	8.04902	+2.51	+1.26	±1.6419
German D-Mark	2.05853	2.07286	+0.70	-0.55	±1.1019
French Franc	6.90403	7.03306	+1.87	+0.62	±1.3719
Dutch Guilder	2.31943	2.33757	+0.78	-0.47	±1.5019
Irish Punt	0.768411	0.775197	+0.88	-0.37	±1.6689
Italian Lira	1483.58	1502.28	+1.26	+0.62	±4.0815
Spanish Peseta	130.000	129.931	-0.05	-	-

Changes are for Ecu, therefore positive change denotes a weak currency
Adjustment calculated by Financial Times.

£ IN NEW YORK

July.18	Latest	Previous Close
£ Spot	1.6260-1.6270	1.6140-1.6150
1 month	0.66-0.65pm	0.69-0.67pm
3 months	1.95-1.92pm	1.90-1.86pm
12 months	7.40-7.30pm	6.80-6.65pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	July.18	Previous
8.30 am	92.2	91.9
9.00 am	92.1	91.9
10.00 am	92.3	91.9
11.00 am	92.3	91.9
Noon	92.2	92.0
1.00 pm	92.1	92.3
2.00 pm	92.4	92.2
3.00 pm	92.5	92.2
4.00 pm	92.3	92.2

CURRENCY RATES

July.18	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling #	-	1.27102	1.48714
U.S Dollar	7	1.26395	1.07737
Canadian $	12.39	1.50549	1.29142
Austrian Sch.	5	17.0102	14.5842
Belgian Franc	7.75	50.5706	43.3910
Danish Krone	7½	9.39368	8.04902
Deutsche Mark	5.00	2.41743	2.07286
Neth. Guilder	5.50	2.72381	2.33757
French Franc	9½	8.19861	7.03306
Italian Lira	13½	1752.98	1502.28
Japanese Yen	2½	178.407	153.443
Norway Krone	8	8.85776	7.57498
Spanish Peseta	-	151.850	129.931
Swedish Krona	9½	8.24411	7.04491
Swiss Franc	5.5	2.08931	1.79544
Greek Drach.	20½	208.930	179.059
Irish Punt	-	0.903204	0.775197

Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for July.17

CURRENCY MOVEMENTS

July.18	Bank of England Index	Morgan** Guaranty Changes %
Sterling	92.3	-18.9
U.S Dollar	70.3	-7.4
Canadian Dollar	103.5	+0.2
Austrian Schilling	107.0	+9.8
Belgian Franc	106.4	-5.9
Danish Krone	103.9	-1.2
Deutsche Mark	113.3	+20.7
Swiss Franc	107.0	-16.4
Guilder	110.6	+13.4
French Franc	99.5	-15.4
Lira	99.2	-19.1
Yen	138.6	+69.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100) **Rates are for July.17

OTHER CURRENCIES

July.18	£	$
Argentina	1051.35-1060.10	650.00-655.00
Australia	2.1190-2.1225	1.3140-1.3150
Brazil	3.1025-3.1205	1.9150-1.9280
Finland	6.9700-6.9475	4.2750-4.2770
Greece	263.45-267.65	164.30-166.95
Hong Kong	12.6255-12.6420	7.8025-7.8045
Iran	117.40*	72.00*
Korea(Sth)	1073.20-1081.85	664.90-670.30
Kuwait	0.47290-0.47370	0.29430-0.29450
Luxembourg	64.50-64.60	39.65-39.75
Malaysia	4.3415-4.3540	2.6810-2.6850
Mexico	4059.75-4068.90	2518.00-2514.00
N. Zealand	2.8250-2.8310	1.7505-1.7520
Saudi Ar.	6.0265-6.0315	3.7500-3.7510
Singapore	3.1665-3.1745	1.9560-1.9580
S.Af (Cm)	4.3780-4.3965	2.7040-2.7165
S.Af (Fn)	6.4770-6.6090	4.0000-4.0815
Taiwan	41.75-41.85	25.80-25.85
U.A.E.	5.9810-5.9560	3.6720-3.6730

*Selling rate

POUND SPOT- FORWARD AGAINST THE POUND

July.18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6010-1.6285	1.6260-1.6270	0.68-0.65cpm	4.91	1.90-1.86pm	3.39
Canada	1.9080-1.9390	1.9345-1.9355	0.30-0.20cpm	1.55	0.79-0.65pm	1.49
Netherlands	3.46½-3.47½	3.46¼-3.47¼	2⅛-2cpm	7.13	5⅝-5⅛pm	6.34
Belgium	64.15-64.70	64.50-64.60	33-31cpm	5.95	86-82pm	5.21
Denmark	11.92¼-12.00¼	11.97¾-11.98¾	4⅞-4¼orepm	4.51	13⅝-12⅛pm	4.36
Ireland	1.1495-1.1545	1.1500-1.1510	0.50-0.45cpm	4.95	1.20-1.10pm	4.00
W. Germany	3.07-3.08½	3.07¼-3.08¼	1¾-1⅝pfpm	7.06	5¼-5pm	6.57
Portugal	256.45-258.00	256.80-257.80	8-36cdis	-1.03	115-170dis	-2.22
Spain	192.40-193.45	193.00-193.30	9-22cdis	-0.96	53-72dis	-1.29
Italy	2225¼-2234¾	2229½-2230½	4-2lirepm	1.61	9-6pm	1.35
Norway	11.25¼-11.33¼	11.32¼-11.33¼	3¼-2⅞orepm	3.24	8¼-7⅛pm	2.80
France	10.42¼-10.46½	10.44-10.45	4½-4¼cpm	5.03	12-11½pm	4.50
Sweden	10.47-10.55¼	10.54¼-10.55¼	2½-2orepm	2.49	5⅝-5¼pm	2.04
Japan	228-230½	229½-230½	1⅞-1⅝ypm	9.13	4⅞-4⅝pm	8.15
Austria	21.58-21.68	21.63-21.66	11-9gropm	5.54	33-29pm	5.73
Switzerland	2.65¼-2.67½	2.66½-2.67½	1⅝-1½cpm	7.02	4½-4¼pm	6.55
ECU	1.4825-1.4875	1.4850-1.4855	0.65-0.62cpm	5.13	1.68-1.63pm	4.46

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 64.70-64.80 Six-month forward dollar 3.67-3.62cpm 12 months 6.75-6.65cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

July.18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6010-1.6285	1.6260-1.6270	0.68-0.65cpm	4.91	1.90-1.86pm	4.62
Ireland†	1.3890-1.4095	1.4085-1.4095	0.05-parpm	0.21	0.28-0.18pm	0.65
Canada	1.1900-1.1915	1.1905-1.1915	0.32-0.35cdis	-3.38	0.92-0.97dis	-3.18
Netherlands	2.1345-2.1700	2.1345-2.1355	0.39-0.37cpm	2.13	0.97-0.93pm	1.77
Belgium	39.65-40.30	39.65-39.75	4.00-2.50cpm	0.98	6.50-4.00pm	0.53
Denmark	7.36½-7.47¼	7.36¼-7.37	0.20-0.45oredis	-0.53	0.75-1.15dis	-0.51
W. Germany	1.8880-1.9250	1.8930-1.8940	0.36-0.34pfpm	2.21	0.96-0.92pm	1.98
Portugal	158.25-160.55	158.25-158.35	73-88cdis	-6.09	265-295dis	-7.06
Spain	118.80-120.60	118.80-118.90	55-65cdis	-6.06	175-185dis	-6.06
Italy	1370-1394½	1370¾-1371¼	3.40-3.90liredis	-3.18	11.20-11.90dis	-3.35
Norway	6.95¾-7.03¼	6.96¼-6.96¾	0.90-1.15oredis	-1.76	3.25-3.55dis	-1.94
France	6.42-6.52¼	6.42-6.42½	0.07-0.02cpm	0.08	0.20-0.35dis	-0.17
Sweden	6.46½-6.54½	6.48¼-6.48¾	1.30-1.45oredis	-2.53	4.25-4.50dis	-2.69
Japan	141.00-142.80	141.35-141.45	0.50-0.48ypm	4.15	1.29-1.26pm	3.60
Austria	13.33¼-13.54½	13.33½-13.34	1.05-0.25gropm	0.58	4.00-2.40pm	0.96
Switzerland	1.6365-1.6670	1.6410-1.6420	0.31-0.28cpm	2.14	0.81-0.76pm	1.90
ECU	1.0775-1.0930	1.0920-1.0930	0.05-0.15cdis	-1.10	0.07-0.45dis	-0.95

Commercial rates taken towards the end of London trading.† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 39.75-39.85.

EURO-CURRENCY INTEREST RATES

July.18	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	14⅛-14	14⅛-13⅞	14-13⅞	13⅞-13⅞	13¾-13⅝	13½-13⅜
US Dollar	9⅛-9⅛	9¼-9⅛	9⅛-9	9-8⅞	8⅞-8¾	8¾-8⅝
Can. Dollar	12⅜-12¼	12⅛-11⅞	12⅛-11⅞	12⅛-11⅞	11¾-11½	11¼-11
D. Guilder	7⅛-6⅞	7⅛-6⅞	7⅛-6⅞	7⅛-7	7¼-7⅛	7⅜-7¼
Sw. Franc	7⅛-7	7⅛-7	7⅛-6⅞	7⅛-6⅞	7-6⅞	6⅞-6¾
Deutschmark	7-6⅞	7-6⅞	6⅞-6¾	7-6⅞	7-6⅞	7-6⅞
Fr. Franc	9⅛-9	9⅛-9	9⅛-9	9⅛-9	9⅛-9	9⅛-9
Italian Lire	11-9	12⅛-11¼	12⅛-11⅞	12⅛-11⅞	12⅛-12	12⅜-12⅛
B. Fr. (Fin)	8⅝-8½	8⅝-8½	8⅝-8½	8⅝-8½	8⅝-8½	8⅝-8½
B. Fr. (Con.)	8⅝-8½	8⅝-8½	8⅝-8½	8⅝-8½	8⅝-8½	8⅝-8½
Yen	5⅜-5¼	5¼-5⅛	5⅜-5¼	5½-5⅜	5⅝-5½	5⅝-5½
D. Krone	10⅛-10⅛	10⅛-9⅞	9⅞-9⅝	9⅞-9⅝	9⅞-9⅝	9⅞-9⅝
Asian $Sing	9⅜-9¼	9¼-9⅛	9⅛-9	9-8⅞	8⅞-8¾	8¾-8⅝

Long term Eurodollars: two years 8¾-8⅝ per cent; three years 8¾-8⅝ per cent; four years 8⅞-8¾ per cent; five years 8⅞-8¾ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

July.18	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.627	3.080	230.0	10.45	2.670	3.473	2230	1.935	64.55
$	0.615	1	1.893	141.4	6.423	1.641	2.135	1371	1.189	39.67
DM	0.325	0.528	1	74.68	3.393	0.867	1.128	724.0	0.628	20.96
YEN	4.348	7.074	13.39	1000.	45.43	11.61	15.10	9696.	8.413	280.7
F Fr.	0.957	1.557	2.947	220.1	10.	2.555	3.323	2134	1.852	61.77
S Fr.	0.375	0.609	1.154	86.14	3.914	1.	1.301	835.2	0.725	24.18
H Fl.	0.288	0.468	0.887	66.23	3.009	0.769	1.	642.1	0.557	18.59
Lira	0.448	0.730	1.381	103.1	4.686	1.197	1.557	1000.	0.868	28.95
C $	0.517	0.841	1.592	118.9	5.401	1.380	1.795	1152	1.	33.36
B Fr.	1.549	2.521	4.771	356.3	16.19	4.136	5.380	3455	2.998	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

US bonds lose ground

US TREASURY bonds lost ground in Liffe trading yesterday after a wider than expected US trade deficit in May. However, the weaker tone was relatively modest in comparison with the dollar's decline. The absence of any real sell-off in US instruments reflects a continued mood of uncertainty ahead of the release today of US consumer prices.

These are expected to give a clearer indication not only of the level of inflation within the US economy, but also on how the Federal Reserve may move on the timing of any cut in interest rates. The September US bond price opened at 97-05 and fell to a low of 96-25 before finishing at 96-30, down from 97-15 on Monday.

Three-month short sterling deposits finished on a softer note; the September contract slipped from an opening level of 86.47 to 86.45 at the close, down from 86.53 previously.

While cash rates were little changed overall, the mood of the market remained unsettled ahead of the release tomorrow of UK money supply and bank lending data.

Elsewhere, West German Government bonds were marked down as cash rates continued to show a firmer trend. In addition, the D-Mark was again weaker in terms of the dollar. The September bond price closed at 95.16 from 95.31 on Monday.

LIFFE LONG GILT FUTURES OPTIONS
£50,000 64ths of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
92	3-58	4-00	0-04	0-32
93	3-00	3-16	0-10	0-48
94	2-09	2-38	0-19	1-06
95	1-27	2-00	0-37	1-32
96	0-56	1-33	1-01	2-01
97	0-30	1-07	1-40	2-39
98	0-16	0-51	2-26	3-19

Estimated volume total, Calls 1307 Puts 715
Previous day's open int. Calls 15615 Puts 20152

LIFFE US TREASURY BOND FUTURES OPTIONS
$100,000 64ths of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
90	6-62	6-63	0-02	0-23
92	5-01	5-17	0-05	0-41
94	3-10	3-48	0-14	1-08
96	1-38	2-32	0-42	1-56
98	0-38	1-33	1-42	2-57
100	0-12	0-57	3-16	4-17
102	0-03	0-32	5-07	5-56

Estimated volume total, Calls 120 Puts 50
Previous day's open int. Calls 2497 Puts 2954

LIFFE BUND FUTURES OPTIONS
DM250,000 points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
9350	1.71	1.94	0.05	0.29
9400	1.26	1.58	0.10	0.43
9450	0.86	1.25	0.20	0.60
9500	0.53	0.97	0.37	0.82
9550	0.29	0.73	0.63	1.08
9600	0.15	0.53	0.99	1.38
9650	0.07	0.38	1.41	1.73

Estimated volume total, Calls 790 Puts 814
Previous day's open int. Calls 13469 Puts 12332

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls-settlements Aug	Calls-settlements Sep	Puts-settlements Aug	Puts-settlements Sep
145	16.58	16.90	0.00	0.08
150	11.90	11.90	0.00	0.36
155	6.90	7.05	0.03	0.45
160	3.17	3.67	1.81	3.04
165	1.07	1.65	4.71	6.02
170	0.24	0.61	8.88	9.98
175	0.04	0.19	13.68	14.56

Estimated volume total, Calls 0 Puts 0
Previous day's open int. Calls 196 Puts 23

LIFFE EURODOLLAR OPTIONS
$1m points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
9075	0.62	1.05	0.04	0.10
9100	0.42	0.86	0.10	0.15
9125	0.24	0.66	0.19	0.20
9150	0.13	0.49	0.30	0.29
9175	0.06	0.35	0.48	0.40
9200	0.03	0.24	0.70	0.54
9225	0.02	0.16	0.94	0.71

Estimated volume total, Calls 58 Puts 120
Previous day's open int. Calls 5561 Puts 4165

LIFFE SHORT STERLING OPTIONS
£500,000 points of 100%

Strike Price	Calls-settlements Sep	Calls-settlements Dec	Puts-settlements Sep	Puts-settlements Dec
8600	0.62	1.42	0.17	0.18
8625	0.45	1.22	0.25	0.23
8650	0.31	1.03	0.36	0.29
8675	0.21	0.85	0.51	0.36
8700	0.13	0.70	0.68	0.46
8725	0.08	0.56	0.88	0.57
8750	0.05	0.45	1.10	0.71

Estimated volume total, Calls 484 Puts 385
Previous day's open int. Calls 22034 Puts 20546

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev.
Sep	95-27	95-29	95-20	96-02
Dec	95-16	95-19	95-19	95-25

Estimated volume 10909 (14779)
Previous day's open int. 38584 (38250)

7-10 YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev.
Sep	-	-	-	-
Dec	-	-	-	-

Estimated volume 0 (0)
Previous day's open int. 0 (0)

US TREASURY BONDS 8% $100,000 32nds of 100%

	Close	High	Low	Prev.
Sep	96-30	97-10	96-25	97-15
Dec	96-20	-	-	97-05

Estimated volume 4146 (3954)
Previous day's open int. 7995 (7533)

6% NOTIONAL GERMAN GOVT. BOND DM250,000 100ths of 100%

	Close	High	Low	Prev.
Sep	95.16	95.38	95.14	95.31
Dec	95.15	95.23	95.15	95.30
Mar	95.05	-	-	95.17

Estimated volume 18807 (10868)
Previous day's open int. 38611 (39322)

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

	Close	High	Low	Prev.
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	103.96	103.78	103.78	103.82

Estimated volume 555 (411)
Previous day's open int. 987 (1030)

THREE MONTH STERLING £500,000 points of 100%

	Close	High	Low	Prev.
Sep	86.45	86.48	86.40	86.53
Dec	87.24	87.33	87.21	87.38
Mar	87.93	88.01	87.93	88.05
Jun	88.35	88.33	88.33	88.43

Est. Vol. (inc. figs. not shown) 19426 (33775)
Previous day's open int. 90861 (89970)

THREE MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev.
Sep	91.33	91.42	91.25	91.47
Dec	91.70	91.81	91.66	91.84
Mar	91.96	92.08	91.94	92.13
Jun	91.94	92.05	92.03	92.12

Est. Vol. (inc. figs. not shown) 9705 (2765)
Previous day's open int. 47320 (47576)

THREE MONTH EUROMARK DM 1m points of 100%

	Close	High	Low	Prev.
Sep	93.15	93.16	93.10	93.16
Dec	93.22	93.23	93.20	93.26
Mar	93.31	93.33	93.31	93.35
Jun	93.38	-	-	93.42

Estimated volume 4016 (2518)
Previous day's open int. 15144 (15490)

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev.
Sep	2293.0	2309.0	2282.0	2295.0
Dec	2338.0	-	-	2340.0

Estimated volume 2985 (3486)
Previous day's open int. 18514 (18530)

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6265	1.6199	1.6077	1.5901	1.5595

IMM-STERLING $ per £

	Latest	High	Low	Prev.
Sep	1.6080	1.6100	1.5872	1.6014
Dec	1.5920	1.5920	1.5680	1.5830
Mar	1.5730	1.5730	1.5530	1.5654

PHILADELPHIA SE £/$ OPTIONS
£31,250 (cents per £1)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Dec
1.575	5.03	5.35	-	6.02	0.87	1.90	3.89
1.600	3.26	3.79	-	4.67	1.67	2.88	5.12
1.625	2.01	2.57	-	3.53	2.78	4.13	6.55
1.650	1.09	1.75	-	2.62	4.42	5.73	8.15
1.675	0.65	1.11	-	2.01	6.37	[illegible]	9.90
1.700	0.33	0.63	-	1.45	9.40	[illegible]	11.79
1.725	0.10	0.35	-	1.01	-	[illegible]	13.80

Previous day's open int: Calls N/A Puts N/A (All currencies)
Previous day's volume: Calls N/A Puts N/A (All currencies)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Latest	High	Low	Prev.
Sep	96-27	97-11	96-24	97-15
Dec	96-19	97-02	96-15	97-04
Mar	96-11	96-24	96-10	96-27
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]
Mar	-	-	-	[illegible]
Jun	-	-	-	[illegible]
Sep	-	-	-	[illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Latest	High	Low	Prev.
Sep	[illegible]	[illegible]	[illegible]	92.71
Dec	[illegible]	[illegible]	[illegible]	93.20
Mar	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Latest	High	Low	Prev.
Sep	0.7115	0.7154	0.7049	0.7115
Dec	0.7170	0.7173	0.7100	0.7167
Mar	0.7220	0.7220	0.7155	0.7216

DEUTSCHE MARK (IMM) DM125,000 $ per DM

	Latest	High	Low	Prev.
Sep	0.5287	0.5295	0.5210	0.5270
Dec	0.5316	0.5316	0.5232	0.5291
Mar	0.5330	0.5330	0.5254	0.5311

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Latest	High	Low	Prev.
Sep	91.34	91.42	91.30	91.46
Dec	91.72	91.81	91.71	91.85
Mar	91.97	92.07	91.97	92.12
Jun	91.94	92.06	91.94	92.10
Sep	91.84	91.94	91.84	92.00
Dec	91.67	91.74	91.61	91.80
Mar	91.55	91.66	91.55	91.71
Jun	[illegible]	[illegible]	91.46	91.58

STANDARD & POORS 500 INDEX 500 times index

	Latest	High	Low	Prev.
Sep	334.25	334.80	333.70	335.60
Dec	338.10	338.60	337.80	339.50
Mar	342.00	-	341.70	343.30

SWISS FRANC (IMM) SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
Sep	0.6105	0.6105	0.6020	0.6099
Dec	0.6130	0.6150	0.6045	0.6123
Mar	0.6150	0.6150	0.6075	0.6148

EUROPEAN OPTIONS EXCHANGE

Series		Aug. 89 Vol	Aug. 89 Last	Nov. 89 Vol	Nov. 89 Last	Feb. 90 Vol	Feb. 90 Last	Stock
Gold C	$390	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$371.50
Gold C	$400	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$371.50
Gold P	$360	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$371.50
Gold P	$370	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$371.50
Gold P	$390	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	$371.50

Series		Jul. 89 Vol	Jul. 89 Last	Aug. 89 Vol	Aug. 89 Last	Sep. 89 Vol	Sep. 89 Last	Stock
EOE Index C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Fl. 311.11
EOE Index P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Fl. 311.11
$/Fl C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Fl. 214.35
$/Fl P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Fl. 214.35

Series		Jul. 89 Vol	Jul. 89 Last	Oct. 89 Vol	Oct. 89 Last	Jan. 90 Vol	Jan. 90 Last	Stock
ABN C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aegon C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ahold C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ahold P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Akzo C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Akzo P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amro C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BUHRMANN-T C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DAF N.V. C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DAF N.V. P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
N.V. DSM C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
N.V. DSM P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gist-Broc. C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gist-Broc. P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Heineken C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hoogovens C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hoogovens P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
KLM C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
KLM P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
KNP C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
KNP P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NEDLLOYD C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NEDLLOYD P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nat.Ned. C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nat.Ned. P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philips C	Fl. 40	5856	0.20	2246	2.80	161	4.20	Fl. 39.90
Philips P	Fl. 40	278	0.60	595	2.10	25	3.10 b	Fl. 39.90
Royal Dutch C	Fl. 140	1904	2.20	632	5.70	78	7.20	Fl. 141.70
Royal Dutch P	Fl. 140	100	0.80	130	4.60	-	-	Fl. 141.70
Unilever C	Fl. 140	713	8.40	538	11.70	99	13	Fl. 148.40
Unilever P	Fl. 140	-	-	105	1.70	104	3.30	Fl. 148.40
Van Ommeren C	Fl. 45	384	1.30	323	4.50 b	4	6.50	Fl. 46.30
Van Ommeren P	Fl. 50	79	4	114	5.20 b	23	5.80	Fl. 46.30
Wessanen C	Fl. 90	60	0.50	9	3.70	-	-	Fl. 89.80

TOTAL VOLUME IN CONTRACTS : 57,507
A=Ask B=Bid C=Call P=Put

MONEY MARKETS

UK rates firmer

TRADING VOLUME was affected by the UK railway strike in the London money market yesterday. Most interbank rates finished slightly firmer, *although this was* regarded more as a defensive mark up as many investors left the City early.

Three-month interbank money closed at 13½-13⅞ per cent from 13⅞-13¾ per cent while longer term rates were unchanged. The Bank of England forecast a shortage of

UK clearing bank base lending rate 14 per cent from May 24

around £600m. Factors affecting the market include bills maturing in official hands and a take up of Treasury bills, together with repayment of late assistance draining £386m. Exchequer transactions took out a further £225m, and banks brought forward balances £40m below target. These were partly offset by a fall in the note circulation of £50m.

The Bank gave assistance in the morning of £47m through outright purchases of eligible bank bills in band 1 at 13⅞ per cent. The forecast was revised to a shortage of around £550m and the Bank gave help in the afternoon of £140m through outright purchases of £139m of eligible bank bills in band 1 at 13⅞ per cent and £1m in band 2 also at 13⅞ per cent. Late help came to £215m, making a total of £402m.

In Frankfurt, the Bundesbank offered a split sale and repurchase agreement combining a fixed and floating rate. A 28-day facility has been offered with a fixed rate of 6.60 per cent while a 63-day agreement is available with no predetermined fixed bid. Successful applicants will receive their allocations today, coinciding with a maturing facility of DM18.5bn.

The Bundesbank is expected to add fresh liquidity over and above the maturing agreements. This is because the authorities have made plain their desire to keep short term interest rates below the Lombard rate. Yesterday call money touched 7.00 per cent during the morning, but the authorities are keen to keep short-term rates below this level.

In Brussels, the Belgian central bank took steps to reduce the level of liquidity in the money market by allocating only BFr14.5bn of 14-day repurchase agreements on Government paper compared with applications of BFr13.45bn and a maturing facility which has drained BFr13.32bn.

FT LONDON INTERBANK FIXING

(11.00 a.m. July.18) 3 months US dollars		6 months US Dollars	
bid 8⅞	offer 9	bid 8¾	offer 8⅞

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Lunchtime

Prime rate	10½
Broker loan rate	10⅛
Fed.funds	9⅛
Fed.funds at intervention	-

Treasury Bills and Bonds

One month	8.31	Three year	7.96
Two month	8.44	Four year	7.97
Three month	8.16	Five year	7.97
Six month	8.18	Seven year	8.04
One year	8.05	10-year	8.13
Two year	7.96	30-year	8.17

July.18	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	6.90-7.00	6.85-7.00	6.85-7.00	6.90-7.05	6.90-7.05	7.00
Paris	9-9⅛	9⅛-9¼	9⅛-9¼	9⅛-9⅜	9⅛-9⅜	8.75
Zurich	6½-6⅝	6¼-7	-	6¼-7	-	-
Amsterdam	6.87-7.00	7.00-7.10	-	7.12-7.22	-	-
Tokyo	5⅛-5⅛	5⅛-5⅛	-	5⅛-5⅛	-	-
Milan	12-12½	12⅛-12⅜	-	12⅜-12⅞	-	-
Brussels	9.00	8⅞-8⅞	-	8⅞-8⅞	-	-
Dublin	9-9¼	9⅛-9⅝	9½-9¾	9⅝-9⅞	10-10¼	-

LONDON MONEY RATES

July.18	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15	14⅛	14	13⅞	13¾	13½
Interbank Bid	14	13⅞	13⅞	13⅞	13⅝	13⅜
Sterling CDs	-	-	13⅞	13⅝	13⅞	13⅜
Local Authority Deps.	14	13⅞	13⅞	13¾	13⅝	13⅜
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	14⅛	13⅞	13¾	13⅝	-	-
Company Deposits	-	-	13⅞	13⅞	13⅞	13½
Finance House Deposits	-	-	13⅞	13⅞	13¾	13½
Treasury Bills (Buy)	-	-	13⅞	13⅞	-	-
Bank Bills (Buy)	-	-	13⅞	13⅝	12⅞	-
Fine Trade Bills (Buy)	-	-	14⅛	14	13⅞	-
Dollar CDs	-	-	9.05	8.87	8.75	8.55
SDR Linked Dep Offer	-	-	8⅛	8⅛	8⅛	8⅛
SDR Linked Dep Bid	-	-	8⅛	8⅛	8⅛	8⅛
ECU Linked Dep Offer	-	-	9⅛	9⅞	9⅛	9⅜
ECU Linked Dep Bid	-	-	9	9⅛	9⅛	9¼

Treasury Bills (sell); one-month 13⅞ per cent; three months 13¼ per cent; Bank Bills (sell); *one-month 13⅝ per cent; three months 13⅞ per cent; Treasury Bills; Average tender rate of* discount 13.4342 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June.30 , 1989. Agreed rates for period July 26,1989 to August 25 . 1989, Scheme I: 14 90 p.c., Schemes II & III: 15.51 p.c. Reference rate for period June.1 to June.30 . 1989. Scheme IV&V: 14.175 p.c.Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 14 from July.1 , 1989: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 9½ per cent; one-three months 11 per cent; three-six months 11 per cent; six-nine months 11 per cent; nine-twelve months 11 per cent; Under £100,000 9½ per cent from December 1,1988 , Deposits withdrawn for cash 5 per cent.

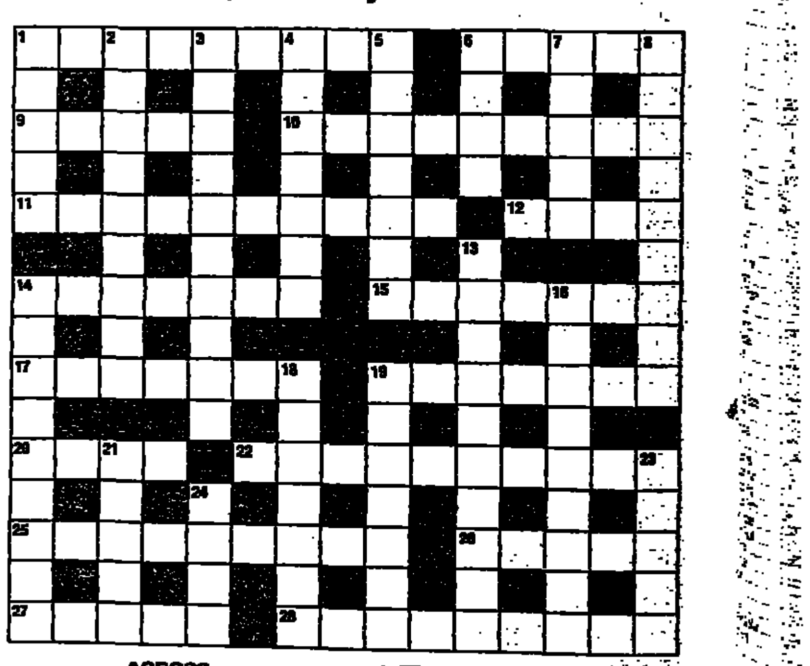
BASE LENDING RATES

	%		%		%
ABN Bank	14	Clydesdale Bank	14	NatWestminster	14
Adam & Company	14	Comm. Bk. N. East	14	Northern Bank Ltd	14
AAB - Allied Arab Bk	14	Co-operative Bank	*14	Norwich Gen. Trust	14
Allied Irish Bank	14	Coutts & Co	14	PRIVATbanken Limited	14
● Henry Ansbacher	14	Cyprus Popular Bk	14	Provincial Bank PLC	15
Associates Cap Corp	14	Dunbar Bank PLC	14	R. Raphael & Sons	14
Authority Bank	14	Duncan Lawrie	14	Roxburghe G'rantee	14½
● B & C Merchant Bank	14	Equatorial Bank plc	14	Royal Bk of Scotland	14
Bank of Baroda	14	Exeter Trust Ltd	14½	Royal Trust Bank	14
Banco Bilbao Vizcaya	14	Financial & Gen. Bank	14	● Smith & Williamson Secs.	14
Bank Hapoalim	14	First National Bank Plc	15	Standard Chartered	14
Bank Credit & Comm	14	● Robert Fleming & Co.	14	TSB	14
Bank of Cyprus	14	Robert Fraser & Ptrs.	14½	United Bk of Kuwait	14
Bank of Ireland	14	Girobank	14	United Mizrahi Bank	14
Bank of India	14	● Guinness Mahon	14	Unity Trust Bank Plc	14
Bank of Scotland	14	HFC Bank plc	14	Western Trust	14
Banque Belge Ltd	14	● Hambros Bank	14	Westpac Bank Corp.	14
Barclays Bank	14	Heritable & Gen Inv Bnk	14	Whiteaway Laidlaw	14
Benchmark Bank PLC	14	● Hill Samuel	§14	Yorkshire Bank	14
Berliner Bank AG	14	C. Hoare & Co.	14		
Brit Bk of Mid East	14	Hongkong & Shangh	14		
● Brown Shipley	14	● Leopold Joseph & Sons	14		
Business Mtge Tst	14½	Lloyds Bank	14		
CL Bank Nederland	14	Meghraj Bank Ltd	14		
Central Capital	14	McDonnell Douglas Bnk	14		
● Charterhouse Bank	14	Midland Bank	14		
Citibank NA	14	Mount Banking	14		
City Merchants Bank	14	Nat Bk. of Kuwait	14		

● Members of British Merchant Banking & Securities Houses Association. * Deposit now 5.9% Saverise 8.5%. Top Tier-£10,000+ instant access 12.8% ‡ Mortgage base rate. § Demand deposit 9%. Mortgage 13.25% - 15%

CROSSWORD

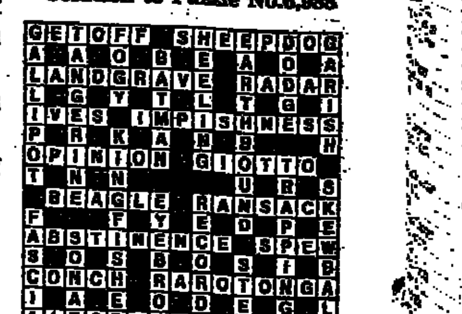
No.6,989 Set by FETTLER



ACROSS
1 Retains, as a Tory does (9)
6 With 20, one of 1 across — an unsatisfactory answer (5)
9 In mining ottilite, a mass of gold or silver might be found (5)
10 As Himmler was — CO leading shambles (9)
11 One of 1 across — an unwelcome third party (10)
12 One of 1 across — quiet one that reeks (4)
14 Los Angeles: one metropolis showing the state of the people (7)
15 Ventilate left wing views here (7)
17 Avid tea-drinker imbibing what's jolly hot (7)
19 Mature one is unlikely to be inexpert (7)
20 With 6, one of 1 across — dog with its lead (4)
22 One of 1 across — fair or blonde (10)
25 One of 1 across — Madam Adela perhaps (9)
26 One of 1 across — big one in the Empire State (5)
27 Switch the fresh horses (5)
28 Deserted a band? One did after I'd left (9)

DOWN
1 Hold tight! Cy's gone off bike riding (5)
2 Black dye; one rising when stirred (9)
3 Easy-going mixers stem ultraisms (10)
4 Fever caught in swamp? Not with certainty (7)
5 Warbled a song backwards! Under its influence perhaps (7)
6 Beat by a lap (4)
7 A standard pose (5)
8 Nothing remote controlled was used to measure the water level (9)
13 Brought up feeling weary, we hear, so often has a good loaf (10)
14 Arrive in due course! That's his worst (4-5)
16 To make right ready in stove is to make too ready (9)
18 It was played at a rich gathering (7)
19 Milk in the manner of a crippled dame (7)
21 Being countrified is coming back in particular urban areas (5)
23 Surrender the financial return (5)
24 There's one in my lot (4)

Solution to Puzzle No.6,988



WORLD STOCK MARKETS

AUSTRIA — BELGIUM/LUXEMBOURG — DENMARK — FINLAND — FRANCE — FRANCE (continued) — GERMANY — GERMANY (continued) — ITALY — ITALY (continued) — NETHERLANDS — NORWAY — SPAIN — SWEDEN — SWITZERLAND — SOUTH AFRICA — JAPAN — AUSTRALIA — AUSTRALIA (continued) — HONG KONG — SINGAPORE

[illegible]

CANADA

TORONTO
2pm prices July 18

[illegible]

†—No voting rights or restricted voting rights.

INDICES

NEW YORK — DOW JONES

	July 17	July 14	July 13	July 12	1989 High	1989 Low	Since compilation High	Since compilation Low
♦Industrials	2553.49	2554.82	2538.32	2532.63	2554.82 (14/7)	2144.64 (3/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	92.91	93.02	92.91	(u)	93.02 (14/7)	87.35 (23/3)	–	–
Transport	1229.30	1210.54	1194.70	1196.31	1229.30 (17/7)	959.95 (3/1)	1229.30 (17/7/89)	12.32 (8/7/32)
Utilities	216.74	216.86	215.61	215.73	216.86 (14/7)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2565.82 (2563.16) Low 2535.85 (2512.52)

STANDARD AND POOR'S	July 17	July 14	July 13	July 12	1989 High	1989 Low	Since compilation High	Since compilation Low
Composite‡	332.44	331.84	329.95	329.81	332.44 (17/7)	275.31 (3/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	379.67	378.70	376.50	376.24	379.67 (17/7)	318.66 (3/11)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	31.76	31.81	31.64	31.68	31.81 (14/7)	24.30 (3/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	185.37	185.06	184.31	184.15	185.37 (17/7)	154.98 (3/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	369.55	368.12	367.64	367.18	369.55 (17/7)	305.24 (3/1)	369.55 (17/7/89)	29.31 (9/12/72)
NASDAQ OTC Comp	449.88	448.90	447.89	446.81	453.65 (9/6)	378.56 (3/1)	455.28 (26/8/87)	54.87 (31/10/72)

	July 14	July 7	Jun 30	year ago (approx.)
Dow Industrial Div. Yield	3.54	3.63	3.70	3.51

	July 12	July 5	June 28	year ago (approx.)
S & P Industrial div. yield	2.98	3.06	3.00	3.03
S & P Indl. P/E ratio	13.81	13.47	13.72	14.42

TRADING ACTIVITY †Volume Millions

	July 17	July 14	July 13
New York	131.151	183.480	153.800
Amex	11.119	11.164	12.620
OTC	107.887	128.852	130.110

NEW YORK	July 17	July 14	July 13
Issues Traded	1,972	1,977	1,977
Rises	752	810	789
Falls	718	639	661
Unchanged	502	528	527
New Highs	132	147	137
New Lows	9	10	17

CANADA

TORONTO	July 17	July 14	July 13	July 12	1989 High	1989 Low
Metals & Minerals	3348.5	3371.9	3350.0	3302.6	3564.9 (6/2)	3207.5 (3/1)
Composite	3854.8	3849.3	3842.5	3837.5	3854.8 (17/7)	3350.5 (3/1)
MONTREAL Portfolio	1949.76	1947.06	1939.29	1938.24	1949.76 (17/7)	1677.48 (3/1)

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Marion Labs	5,853,700	33½	+ 8⅝	Union Carbide	1,154,600	28¼	+ ¼
Warner Comms	3,516,200	65⅛	+ 1¼	Gen Electric	1,141,800	54⅛	—
Comp Assoc	1,834,200	17⅝	+ ⅛	AT&T	1,138,800	36⅛	—
IBM	1,421,100	116⅛	+ 1⅜	Motorola	1,037,300	56½	+ 2¾
NY E&G	1,240,800	27¼	− ¼	McDonald's	1,029,900	29⅛	− ½

Base values of all indices are 100 except NYSE All Common — 50; Standard and Poor's — 10; and Toronto Composite and Metals — 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	July 18	July 17	July 14	July 13	1989 High	1989 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1565.0	1563.3	1558.1	1556.7	1583.7 (23/5)	1412.9 (7/4)
All Mining (1/1/80)	716.2	715.9	718.2	717.6	727.0 (26/1)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	348.21	349.50	349.47	350.36	366.67 (21/6)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6080.71	6081.29	6074.91	6079.53	6158.43 (13/6)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	347.37	348.07	352.91	354.22	356.65 (12/7)	275.49 (27/2)
FINLAND						
Unitas General (1975)	780.6	781.4	785.7	785.0	815.8 (18/4)	723.3 (4/1)
FRANCE						
CAC General (31/12/82)	488.7	489.6	(c)	487.2	491.0 (26/6)	417.9 (4/1)
Ind. Tendance (30/12/88)	115.4	115.8	(c)	115.3	115.8 (17/7)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	624.11	630.47	630.17	625.81	630.47 (17/7)	536.78 (27/2)
Commerzbank (1/12/53)	1858.7	1872.0	1870.9	1861.8	1872.0 (17/7)	1595.7 (27/2)
DAX (30/12/87)	1520.65	1522.99	1530.46	1516.54	1530.46 (14/7)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2505.48	2502.64	2516.11	2498.21	3309.64 (15/5)	2093.61 (5/6)
ITALY						
Banca Com. Ital. (1972)	682.65	683.39	677.36	673.47	683.39 (17/7)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	33343.73	33456.22	33574.77	33631.1	34266.75 (31/5)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2487.93	2499.74	2509.38	2513.97	2544.60 (8/5)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl. Rtn. Gen. (End 1983)	252.9	253.7	252.9	250.6	253.7 (17/7)	208.3 (3/1)
CBS All Shr (End 1983)	196.8	197.4	196.8	195.1	197.4 (28/6)	164.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	659.02	662.65	668.90	664.91	668.90 (14/7)	467.37 (2/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1361.61	1359.00	1363.50	(c)	1363.50 (14/7)	1090.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1599.0§	1594.0	1576.0	1585.0	1639.0 (23/3)	1292.0 (15/2)
JSE Industrial (28/9/78)	2665.0§	2657.0	2655.0	2665.0	2671.0 (12/7)	1961.0 (3/1)
SPAIN						
Madrid SE (30/12/85)	302.20	303.35	304.07	303.96	315.90 (13/6)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4370.4	4377.0	4378.8	4391.1	4391.1 (13/7)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	757.0	751.9	750.3	750.0	759.5 (5/7)	613.1 (3/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	517.3	521.0	522.7	522.7 (13/7)	487.6 (13/6)

§ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX — 1,000 JSE Gold — 255.7 JSE Industrials — 264.3 and Australia, All Ordinary and Mining — 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Tuesday July 18 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	51.16m	884	-6	Toshiba	3.85m	1,330	-10
NKK	12.88m	798	-6	Sumitomo Metal	3.72m	1,310	0
MHI	12.31m	1,250	-10	Kawasaki Steel	3.49m	912	-18
[illegible]	7.46m	1,170	[illegible]	[illegible]	[illegible]	[illegible]	-4
[illegible]	6.00m	1,770	[illegible]	[illegible]	[illegible]	[illegible]	+10

NOTES — Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. [illegible]

3pm prices July 18

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A–A–A –								
32½	21¾	AAR	.44	1.4	21	231	32	31⅞	32	+ ⅛
10⅛	8⅝	ACM n	1.01	11.		123	9½	9⅜	9⅜	
11¾	10⅛	ACMIn	1.26a	11.		437	11½	11⅜	11⅜	
10⅛	8½	ACM M	n1.01	11.		367	9⅛	9	9⅛	– ⅛
11½	10	ACM Sc	1.26	11.		882	11½	11⅜	11½	+ ⅛
9⅝	8⅜	ACMSp	1.01	11.		628	9⅛	9⅛	9⅛	
17⅛	10⅞	AL Lab	.12	.7	18	355	16⅞	16⅛	16⅛	
4⅛	3⅛	AMCA	.12e	3.1	26	22	3⅞	3⅞	3⅞	
6⅛	4½	AM Intl				196	5½	5⅜	5⅜	
28½	20⅞	AM In pf	2	9.2		77	21⅞	21⅝	21⅞	+ ⅛
68½	40⅞	AMR			6	7232	u67⅛	65⅛	66⅛	+1
6⅛	3⅞	ARX				43	4⅝	4½	4½	
43½	35¼	ASA	3a	7.1		125	42⅛	42½	42½	
22⅛	15¼	AVX	.24	1.2	9	148	20	19⅞	19⅞	– ⅛
62⅛	43⅛	AbtLab	1.40	2.3	17	2134	61⅞	61½	61⅞	– ⅛
16¾	14	AbitiBi g	1			29	14⅛	14⅛	14⅛	– ⅛
13	7½	AcmeC	.40	3.4		33	11⅞	11⅞	11⅞	– ⅛
8⅝	6⅞	AcmeE	.32	3.8	19	61	8⅝	8⅛	8⅛	– ⅛
34⅝	20⅛	Acton			24	42	31⅛	31⅛	31⅛	– ⅛
16⅞	14¼	AdaEx	1.82e	11.		61	16	15⅞	15⅞	– ⅛
14⅞	7⅞	AMD				1820	9½	9⅛	9⅛	– ⅛
38⅞	26⅛	AMD pf	3	8.4		8	37⅞	37½	37⅞	+ ⅛
11⅞	6½	Adobe				615	11⅞	11	11	– ⅛
19⅝	16⅛	Adob pf	1.84	9.9		z53	18⅞	18⅝	18⅝	+ ⅛
21⅞	19⅞	Adob pf	2.40	11.		z56	21⅛	21	21	+ ⅛
9⅝	6⅜	Advest	.12	1.7	18	209	7	6⅞	6⅞	
59⅞	45½	AetnLf	2.76	4.7	9	1206	59⅛	57½	58⅛	
14	12⅞	AflPb				3294	13⅛	12⅞	13	
23⅛	14⅝	Ahmans	.88	3.9	11	1626	22⅝	22½	22⅝	– ⅛
4⅝	2⅛	Aileen				21	2⅝	2⅝	2⅝	
50½	37¾	AirPrd	1.52	3.8	11	1500	43⅝	43	43⅝	+ ⅛
29⅞	16½	AirbFrt	.60	2.1	27	54	29⅛	29⅛	29⅛	– ⅛
24½	13½	Airgas			14	84	22½	22	22⅛	+ ⅛
20½	17⅞	Airlease	2.40	12.	9	42	20	20	20	– ⅛

Continued on Page 41

صكذا من الاهل

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
46¼	43⅝	Xerox pf				75	45⅝	45⅝	45⅝	+ ⅛
48¾	44½	Xerox pf4.13		9.0		45	46⅛	45¾	45⅞	− ½
44¾	29⅞	XTRA	.72	2.3	13	57	31¼	30¾	30¾	− ½
33	24½	XTRA pf1.94		7.3		7	26½	26½	26½	+ ⅛
3½	2	Zapata				3842	u 3⅝	3⅛	3⅝	+ ⅛
15½	10½	Zemex	.40	3.3	135	23	12⅛	12⅛	12⅛	− ⅛
25¾	16½	ZenithE			825	230	16⅝	16½	16½	
10⅜	8⅞	Zeeinc	1.26	13.		x142	9⅝	9⅜	9½	
2¾	1⅛	vjZeeLb				332	1⅛	1⅛	1⅛	+ ⅛
21¼	15	ZenNtl	.84	4.3	9	743	19¾	19½	19⅝	− ⅛
22	14¾	Zero	.44	2.0	17	152	22	21¾	21¾	− ⅛
41	21	Zurnin	.68	1.7	21	458	u41½	40½	41⅛	+ ¾
11¾	10	Zweig	1.09e	9.4		353	11⅝	11⅝	11⅝	
10⅛	8¼	Zweig n	.96	9.8		1157	9¾	9⅝	9¾	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices July 18

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							
PlyGem	.12	10	769	12⅝	12⅛	12½	
Presd B		134	10	5⅝	5½	5⅝	+ ⅛
[illegible]							

OVER-THE-COUNTER

Nasdaq national market, 3pm prices July 18

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						
WidcrO	.40	52 5	16⅞	16½	16½	− ⅛
Wolohn	.28	3 135	18	17	17½	− ¼
WWEx n		2182	6⅛	6	5⅞	+ ⅛
Worthg	.48	14 265	22½	22½	22½	
Wyman	.60	70 317	19	18½	19	
XL Data		15 62	22¼	21¾	22¼	+ ⅛
XOMA		274	18½	17¾	18	− ⅛
Xicor		9 1215	6⅛	d 5¾	5⅞	− ⅛
YlowF	.70	11 421	29½	29¼	29½	+ ⅛
ZionUt	1.44	25	25½	25	25½	+ ⅛
Zycad		80	2⅞	2⅝	2¾	

AMERICA

May import figures encourage profit-taking

Wall Street

A JUMP in imports to record levels in May encouraged some profit-taking in the equity market yesterday morning but losses were limited as takeover activity triggered considerable price gains in some issues, *writes Janet Bush in New York.*

The Dow Jones Industrial Average edged higher from a loss of more than 10 points in mid-morning trading to be quoted 8.54 points lower at 2,544.95 at 2 pm. Volume was moderate, with 88m shares changing hands by midsession.

The American Stock Exchange Index was quoted marginally lower at midsession while the Nasdaq Composite Index stood 2.15 points down at 447.73.

News of a $10.2bn US trade deficit in May compared with a revised shortfall of $8.3bn in April put pressure on prices immediately after the figures were released. The bond market slipped around half a point at the worst levels and the dollar dipped to lows of DM1.8885 and Y141.05. However, stocks clawed back some losses as bonds and the dollar came off their lows.

Part of this recovery could be traced to the fact that economists felt that the 4.3 per cent surge in imports in May to a record $40.71bn was distorted upwards by dock strikes overseas and that a large proportion of the jump could be accounted for by oil and capital goods imports.

The 0.9 per cent fall in exports appeared to confirm that the US economy is weakening. For both bond and stock markets, hopes of a further easing in US monetary policy remain centre stage and the trade figures did little to undermine those hopes.

A focus for the equity market were results from IBM, always taken as an important benchmark for corporate profit trends. IBM posted second quarter earnings of $2.31 per share, at the top end of the range suggested by the company of $2.20 to $2.30 a share.

Nevertheless, IBM's share price slipped $⅞ to $115⅝ by midsession. Among other blue chips, Philip Morris was up $⅜ at $144¼, F W Woolworth was down $⅜ at $54⅜ and Merck added $⅜ to $73⅛.

Marion Laboratories was heavily traded again, rising $1¼ to $34⅜ and so adding to its leap of $8⅛ on Monday. The stock continued to benefit from news that Dow Chemical has agreed to purchase 39 per cent of its common shares in a $38-a-share tender offer and to increase its stake to 67 per cent. Dow fell $1⅛ to $87¼.

B F Goodrich, which had risen strongly on Monday as well, gained $3 to $64¼ on a press report that Centaur Partners, a New York investment company, and a European company were contemplating an $85-a-share offer. The price gain on Monday had been on speculation of bid interest from Britain's Hanson.

McGraw-Hill, a perennial subject of takeover speculation, rose $1⅛ to $72⅝ on the thought that it could become a target for Paramount Communications if it gives up its fight for Time.

There was also speculative buying of airline and hotel stocks. UAL jumped $4⅛ to $179¾ and Hilton Hotels added $2⅛ to $102⅛.

Longview Fibre gained $2⅛ to $74½ on news that a group including the ever-active Robert M Bass Group had built up a 7 per cent stake in the company as an investment.

Canada

SELLING pressure sent stocks lower, following a higher-than-expected May US trade deficit. But Toronto's reaction was reserved, with a new share issue and interest in takeover stocks keeping the market active.

The composite index dropped 4.1 to 3,850.7.

SOUTH AFRICA

THE BELIEF that the bullion price was set to rebound from its current lows lifted gold shares in Johannesburg in cautious trading.

EUROPE

Nervous bourses focus on American deficit

THE STATE of the US trade deficit worried European bourses yesterday and most share prices declined, *writes Our Markets Staff.*

PARIS closed lower in moderate volume after news of a wider-than-expected US trade deficit for May, but dealers said that the rise in the deficit was less important than indications, actual and impending, on American inflation.

Forecasts of a fall in the US inflation rate later this year were accompanied by the warning that there may be hiccups along the way. The French, accordingly, are *waiting to see what today's US consumer price index statistics will reveal.*

"All we need is a neutral international environment," said one observer yesterday. "Fundamentally, the French market is on an upward trend; we have arguably the best economic environment for the past 20 years, definitely the best since 1974."

The market, he said, is *looking at revised French gross domestic product estimates* showing growth rates of 3½ per cent or more, and *unemployment dropping below 10* per cent. "Interest rates are tempting some investors into bonds," he said, "but we believe that equities will continue to compete for investors' money."

Dealers were further encouraged by the way that blue chips such as Peugeot, Paribas and St Gobain seem to be leading the market when it rallies. Yesterday's declines, meanwhile, saw the OMF 50 index down 1.99 at 500.47 and the CAC 40 index 9.02 lower at 1,757.40.

Agence Havas was the feature of the session but ended off its opening highs with a gain of FFr23 to FFr981. Dealers said that Havas's FFr1.58bn capital increase, most of which was *reserved for existing* shareholders, had been oversubscribed.

MILAN started very strongly, but profit-taking emerged mid-morning to drag share prices lower, bringing to an end the bourse's eight-session run of rises.

The Comit index slipped 0.74 to 682.65. One analyst welcomed the decline, saying: "The market was simply going too fast – there will be maybe one or two days [of lower prices] and then there will be a good opportunity to buy *again.*" Many shares closed firmer, only to fall back in the after-market.

CIR, Mr Carlo De Benedetti's holding company, which has just raised its stake in electronics company Olivetti, was strong again, adding L140 to L6,420 before falling back after hours to L6,290. Olivetti fell further in the wake of its one-for-10 rights issue announcement, closing L59 down at *L9,481* before easing to *L9,450.*

Turnover was estimated to be more than L300bn, but below Monday's level.

NET PURCHASES by US investors of foreign equities rose by 21 per cent in the first quarter of this year, according to a report by the Securities Industry Association. In the same period, however, European and Asian investors were net sellers of American stock.

US net purchases of international equities rose to $1.7bn, from $1.4bn in the previous quarter. Turnover swelled to $50.5bn worth of foreign shares traded, compared with $43.6bn a quarter earlier – within sight of the record level of $51.8bn seen in the third quarter of 1987, just before the global markets crash.

Foreign activity in US shares, however, is still about 25 per cent below 1987 levels, according to the association.

FRANKFURT recovered a little after a weak opening in moderate trading volume, although share prices finished easier. There was some nervousness in anticipation of the US trade figures, which came after the close, but the after-market saw share prices improve slightly.

An observer said that market sentiment remained positive, because whenever there was weakness at the moment, there was no selling pressure.

The midsession FAZ index fell 6.36 to 624.11 and the closing DAX index lost 2.34 to 1,520.65. Turnover shrank to DM4.39bn from Monday's DM5.19bn, with domestic professionals responsible for much of the volume.

The trend towards weaker interest rates continued to buoy financial issues, with the insurance sector performing relatively well.

AMSTERDAM had a busier, but still quiet day with volume up from Fl 540m to Fl 680m. Dealers said that the market held up well to begin with, lifted by a further rise in the US dollar, but levelled off on the US trade figures.

The CBS tendency index closed 0.8 down at 188.5. Hoogovens held level at Fl 114.80 after peaking at Fl 116.20 on news of a 7.2 per cent rise in its June steel production figures.

The publisher VNU put on Fl 1 to Fl 198; its shares had been under strong pressure in the past week, due to sell recommendations from UK brokers.

MADRID weakened after earlier gains, following domestic trade figures showing a considerably higher deficit for the first six months of 1989. Dealers said, however, that the market had held up well in the circumstances, with the general index falling only 0.58 points to 302.20.

ZURICH was led higher by the chemical sector, which lifted shares off early lows. The Crédit Suisse index gained 3.8 to 624.1.

BRUSSELS closed mainly mixed in a dull market. The cash market index lost 0.58 to 6,080.71. Steelmaker Cockerill eased BFr10 to BFr364 on volume of 17,000 shares, after renewed reports that it is considering a capital increase.

OSLO share prices fell on profit-taking: lower prices for Norway's North Sea oil also contributed to losses. The all-share index fell 2.38 to 510.58.

STOCKHOLM closed marginally higher after early losses in a dull market. The Affärsvärlden General index closed up 0.2 at 1,271.2.

ASIA PACIFIC

Election doubts continue to cast shadow

Tokyo

EXTREME lassitude overcame the market again yesterday, as investors sat on the sidelines to await the outcome of the forthcoming national elections, forcing the Tokyo market lower in thin trading, *writes Yuriko Mita in Tokyo.*

The reverberations of Monday's trading, when volume shrank to its lowest this year, caused share prices to open down. Investors were not prepared to take positions before the release of US trade figures for May, due yesterday, so the market continued to fall, although it did regain some ground with support from small-lot buying.

The Nikkei average closed lower for the fifth day in a row, falling 112.49 to 33,343.73. The high was 33,465.30 and the low was 33,308.64.

Advances were outnumbered by declines, 223 to 623. Volume was slightly higher than Monday's 268m shares at 300m.

The Topix index of all-listed shares dropped 11.81 to 2,487.93 and, in London trading, the ISE/Nikkei 50 index fell 3.11 to 1,979.49.

Many investors shied away from the market in anticipation of the Upper House elections on Sunday, when the ruling Liberal Democratic Party is expected to register heavy losses.

The yen's weakness also contributed to investors' wariness.

Fujita Tourist Enterprises, the leading operator of hotels and restaurants, scored an all-time high of Y3,970, up Y170. The buying enthusiasm for the stock was part of individual investors' moves to place small-lot orders for volatile, high-priced issues in order to take quick profits.

Investors also sought food issues, such as Calpis Food Industry. Calpis, which makes Oligo CC – a functional food that is aimed at preventing disease – reached a high for the year in morning trading on demand from foreign brokers. Calpis finished Y30 up at Y1,520.

Once again, brokers tried to boost interest in the sagging market by trading heavy-capital steels and shipbuilding issues, pushing them into the most actives list. Their efforts, however, were not rewarded. Nippon Steel, the most actively traded, closed down Y6 at Y864, with a volume of 31.16m shares. NKK also dropped Y6 to Y802 with 12.69m shares changing hands.

In Osaka, the OSE average fell 202.05 to 32,657.95. Volume totalled 22m shares, up from Monday's 21m.

Roundup

MOST Asia Pacific markets closed little changed, although Taiwan's rebound continued. Typhoon Gordon restricted trading in Hong Kong.

AUSTRALIA closed slightly higher after profit-taking trimmed early gains.

The All Ordinaries index rose 1.7 to 1,565.0 in turnover of 107m shares worth A$166m. Share prices began to lose gains after the announcement of a balance of payments deficit for June of A$1.63bn – at the higher end of analysts' predictions – and a record annual current account deficit of A$17.74bn for the year ended last month.

Market leader BHP ended 2 cents lower at A$9.36 after reaching A$9.48 in the morning.

SINGAPORE absorbed a bout of profit-taking to close higher, as bargain-hunting and selected buying supported share prices. The Straits Times industrial index rose 2.61 to 1,361.61 in busy trading.

Turnover increased to 150m shares from the previous day's 139m. The financial sector performed well, as did Malaysian lower-priced issues and warrants.

HONG KONG was open for only one hour's trading because of the effects of Typhoon Gordon. The Hang Seng index rose 2.84 to 2,505.48.

TAIWAN rose for the third consecutive session, as volume picked up. Investors were encouraged by reports that the revised Banking Law would not apply in retrospect to investment firms that had solicited funds illegally.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY JULY 17 1989						FRIDAY JULY 14 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (86)	135.61	+0.4	124.53	119.15	+0.5	5.00	135.06	124.22	118.53	157.12	128.28	147.74
Austria (19)	123.92	−0.5	113.80	122.96	+0.3	1.98	124.57	114.57	122.59	127.70	92.84	84.95
Belgium (63)	131.18	−0.6	120.46	129.56	+0.0	4.22	131.94	121.36	129.50	137.10	125.58	112.41
Canada (124)	144.87	+0.2	133.03	125.04	+0.2	3.21	144.53	132.93	124.75	144.87	124.67	126.80
Denmark (36)	209.02	−2.8	191.94	211.08	−2.3	1.49	215.11	197.84	216.06	219.89	165.35	123.61
Finland (26)	140.62	−1.2	129.13	127.01	−0.4	2.15	142.26	130.84	127.50	159.16	125.81	128.69
France (128)	124.88	+0.4	114.68	126.65	+0.5	3.00	124.44	114.46	126.06	125.95	112.57	90.54
West Germany (100)	93.63	−0.1	85.98	92.80	+0.1	2.19	93.75	86.23	92.75	95.32	79.56	75.21
Hong Kong (49)	103.54	−0.8	95.08	103.75	−0.8	5.16	104.36	95.98	104.57	140.33	86.41	109.84
Ireland (17)	143.97	+0.5	132.21	144.65	+0.8	2.90	143.26	131.76	143.47	151.36	125.00	138.54
Italy (97)	91.56	+0.5	84.08	94.44	+0.5	2.37	91.08	83.77	93.94	91.56	74.97	70.27
Japan (455)	177.92	−1.1	163.39	159.20	−0.4	0.50	179.95	165.51	159.76	200.11	164.22	159.70
Malaysia (36)	189.01	−0.4	173.57	195.53	−0.4	2.45	189.80	174.57	196.24	189.80	143.35	152.46
Mexico (13)	267.22	+0.7	245.39	733.35	+0.8	0.69	265.39	244.09	727.59	277.40	153.32	159.83
Netherland (43)	124.11	+0.1	113.97	121.79	+0.4	4.25	123.94	113.99	121.33	124.16	110.63	102.49
New Zealand (22)	65.37	−1.3	60.03	61.10	−0.8	6.10	66.20	60.89	61.57	76.02	62.64	79.69
Norway (25)	189.88	−1.8	174.36	180.40	−1.4	1.42	193.40	177.87	182.97	198.39	139.92	118.83
Singapore (26)	167.88	−0.9	154.16	151.79	−0.6	1.83	169.33	155.74	152.67	169.33	124.57	130.15
South Africa (60)	152.45	+0.0	139.99	132.50	+1.0	4.06	152.42	140.18	131.17	153.27	115.35	125.31
Spain (43)	150.78	−0.5	138.46	136.96	−0.1	3.75	151.56	139.39	137.15	156.17	143.14	146.54
Sweden (35)	175.91	−0.5	161.54	169.47	−0.1	2.03	176.81	162.61	169.61	177.49	138.45	116.10
Switzerland (57)	84.47	+0.2	77.57	86.25	+0.3	2.23	84.29	77.52	85.96	86.05	67.81	78.59
United Kingdom (311)	151.65	+0.2	139.26	139.26	+0.0	4.21	151.35	139.20	139.20	153.33	133.28	128.75
USA (555)	135.44	+0.2	124.37	135.44	+0.2	3.32	135.15	124.30	135.15	135.44	112.13	110.37
Europe (1000)	125.69	+0.1	115.42	120.45	+0.1	3.42	125.61	115.52	120.31	126.24	112.63	103.41
Nordic (122)	169.94	−1.6	156.06	159.93	−1.1	1.77	172.64	158.78	161.67	174.42	137.95	111.21
Pacific Basin (674)	173.51	−1.1	159.33	155.57	−0.3	0.73	175.40	161.32	156.10	194.72	160.44	157.21
Euro – Pacific (1674)	154.50	−0.7	141.88	141.45	−0.2	1.62	155.59	143.10	141.72	164.22	141.56	136.71
North America (679)	135.90	+0.2	124.80	134.80	+0.2	3.32	135.62	124.73	134.52	135.90	112.79	111.24
Europe Ex. UK (689)	109.36	+0.0	100.42	108.85	+0.2	2.81	109.39	100.61	108.66	110.42	96.30	87.65
Pacific Ex. Japan (219)	120.65	−0.2	110.79	110.29	+0.0	4.75	120.84	111.14	110.34	137.65	111.93	127.24
World Ex. US (1871)	154.22	−0.7	141.62	141.04	−0.2	1.70	155.24	142.78	141.26	182.77	141.49	135.33
World Ex. UK (2115)	145.99	−0.4	134.06	139.09	+0.0	2.03	146.62	134.85	139.16	147.10	136.98	125.33
World Ex. So. Af. (2366)	146.45	−0.4	134.48	139.13	+0.0	2.22	147.00	135.20	139.20	147.44	136.67	125.61
World Ex. Japan (1971)	131.74	+0.1	120.98	128.94	+0.2	3.41	131.55	120.99	128.71	131.74	114.51	109.29
The World Index (2426)	146.48	−0.4	134.51	139.09	+0.0	2.24	147.03	135.23	139.14	147.47	138.68	125.61

Latest prices were unavailable for this edition.
Constituent changes 18/7/89: The market capitalisations of Adia,Forbo,Holderbank,Holzstoff,Mikron and Oerlikon-Burhle have been increased to reflect the addition of the Participation Certificate shares to the Swiss index.

Foreign investors keep a watchful eye on Portugal

A programme of privatisations is stirring interest in the emerging market, writes Alison Maitland

SPANIARDS may have dominated the two large privatisation issues in Portugal this year, but they are not the only foreigners with a keen eye on the potential of the Lisbon and Oporto stock markets.

After drifting steadily downwards *in miserable volume last* year in the wake of the 1987 crash, Portugal is rousing itself from sleep as the Government's huge sell-off programme focuses attention on the attractions of this tiny emerging market.

Lisbon's Banco Totta e Acores index has risen by a modest 6.6 per cent this year, but that conceals a sharp climb in February on speculation about the privatisations, and another spurt last week following the successful partial flotation of BT&A itself. It also hides *some dramatic rises* in individual stocks.

Bourse turnover – in which shares account for 60 per cent – was up nearly one half in the first six months of this year compared with the same period of 1988.

The inroads made by the Spanish have set some Portuguese talking nervously about the influence of their big neighbour.

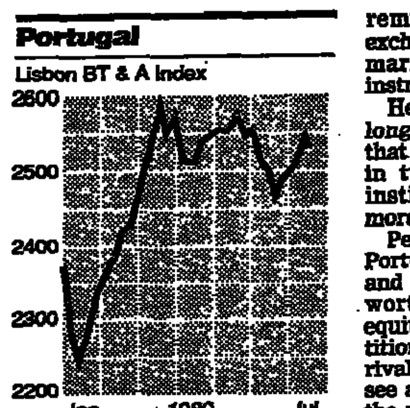
Spain's Banco Hispano-Americano dominated foreign buying in the partial privatisation of the brewing company, *Unicer*, in April. Banesto, another big Spanish bank, outbid European rivals to take a significant proportion of BT&A's privatised capital this month and yesterday announced that it had joined forces with a Portuguese group led by financier Mr Jose Roquette to increase its holding to more than 13 per cent.

UK, French, West German and US interest has also been growing. Mr Jamie Stewart of Baring Securities estimates that 65 to 70 per cent of the current inflow of money into Portuguese stocks is coming from overseas institutions, with about 15 per cent from domestic funds and the rest from local and foreign individuals.

The main obstacle to more rapid growth appears to be the illiquid nature of the market. "You have to have extremely good contacts in the market to get hold of shares at the right price and the right time," says Mr Rodrigo Guimaraes of the Portuguese team at brokers Carnegie International.

Portugal

Lisbon BT & A index



Although the number of listed companies has quadrupled to around 170 since 1986, thanks to tax incentives, only some 50 of them can be traded with ease.

Market capitalisation at the end of 1988 was just $7.2bn, less than that of Thailand, while the value of shares traded in Lisbon last year was less than that of the Philippines market, according to International Finance Corporation figures.

The privatisation programme, with two insurance companies next on the menu, is intended both to reduce Portugal's huge public debt and to swell volume on the market.

But Mr Guimaraes argues that the auction system used in the privatisations has pushed share prices of the new entrants so high that they, too, are difficult to trade. Unicer has been listed since June 16, but the first trades took place only last week, and then only 90 shares changed hands, he says.

"The companies which are being privatised will not in themselves increase the volume of the Lisbon stock exchange, but they will produce something else – perhaps much more important – and that is an awareness and a reminder that the stock exchange is there. In terms of marketing, it's a fantastic instrument."

He is optimistic about the *long-term potential,* arguing that capitalisation will double in two years and that more institutions will invest and more companies seek listings.

Pension fund managers in Portugal have only between 2 and 5 per cent of their $500m worth of funds invested in equities. With growing competition from experienced foreign rivals, he says, "I think we'll see a big move into equities in the next 12 months."

Meanwhile, foreign investment has increased in the past few months as it became clear *that a mooted capital gains tax* would be dropped. Settlement problems have been tackled and the only limits on foreign ownership of shares are in the privatisation issues, where the ceiling is 10 per cent.

Mr Stewart of Barings says the market offers value: "There is a great deal of difficulty in finding attractively valued situations in northern Europe."

Some investors have been wary about the country's high *inflation and trade deficit.* But there are also bright spots on the economic side, with fore*cast GDP growth of 4 to 4.5 per* cent this year, and lower unit labour costs than anywhere else in western Europe.

Mr Tony Ewell of Corporate Broking Services, which specialises in emerging markets in Europe and South America, is also bullish about Portugal's potential. "In the run-up to 1992, Portugal will receive 20 per cent of European Community grants for infrastructure development and reform of the financial sector, creating investment opportunities potentially far more lucrative than in more developed economies . . . the market looks extremely undervalued."

Most brokers agree, however, that this is not a story about rapid short-term gains, *but one of potential growth* over two to three years as local confidence, shattered by the crash, gradually recovers.